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THE CLINTON LEGACY FOR AMERICA'S POOR

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### **ABSTRACT**

This paper examines the impact of Clinton era social policy changes on the poor. It explores shifts in incentives, behavior, and incomes and discusses the role Clinton did or did not play in influencing the policy mix and the nature of the political debate surrounding poverty. Policy changes included a radical shift in welfare policy, a sizable expansion in supports for low income workers with children, new child support enforcement measures, more restricted support for immigrants, and altered housing policies. Partly as a result of these policies, but also in part due to the strong economy, welfare use plummeted, work rose dramatically among single parents, and poverty was reduced. At the same time, there are indications that some families are doing worse than before and that some working families are not getting health and food benefits to which they are entitled. Significant questions remain about what will happen to poor families in the next recession.

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*I believe people on welfare ought to go to work and I've been doing something about it in our state where we've moved 17,000 people from welfare to work, and I have a plan to do even better, to end welfare as we know it and make it a second chance, not a way of life.*

GOVERNOR BILL CLINTON  
ECONOMIC CLUB OF DETRIOT  
DETROIT, MI  
AUGUST 21, 1992

“End welfare as we know it” must be one of the two or three most memorable policy promises offered by candidate Bill Clinton. And no one disputes that at the close of his administration, welfare as we “knew” it was gone. Whether the reforms actually offered a “second chance” is subject to more debate. But caseloads had fallen from their peak of over 14 million persons in 1993 to less than 6 million toward the end of 2000. Fewer people were collecting welfare than in any year since 1968—in spite of population growth and a significant increase in single mother families, the group most likely to receive welfare. Work by single mothers was up. And poverty was down.

Much of the debate over Clinton’s social policy legacy is centered on the wisdom of the welfare reform bill he signed and how much credit or blame he should get for it. Yet the real Clinton social policy legacy is far more complex and provocative than a focus on this one bill alone might suggest. In fact a combination of policy changes radically transformed several critical elements of social policy, modestly changed others, and altered the economic incentives facing low income parents. And these changes raised new questions about the vulnerability of low income families to economic cycles and high unemployment.

## I. The Original Clinton Vision of Social Policy Reform

During the campaign, Clinton offered a fairly specific vision of how he wanted to shift social policy. There were three critical elements, all presented here in Clinton's own words:

- *Make Work Pay*—“...people who work shouldn't be poor. In a Clinton Administration, we'll do everything we can to break the cycle of dependency and help the poor climb out of poverty. First, we need to make work pay by expanding the Earned Income Tax Credit for the working poor.... At the same time, we need to assure all Americans that they'll have access to health care when they go to work.”<sup>1</sup>
- *Strengthen Child Support Enforcement*—“If this new covenant is pro-work, it must also be pro-family. That means we must demand the toughest possible child support enforcement.”<sup>2</sup> “I want a national system of national child support enforcement because governments don't raise children; people do.”<sup>3</sup>
- *Work Oriented Welfare Reform*—“We'll still help people who can't help themselves, and those who need education and training and child care. But if people can work, they'll have to do so. We'll give them all the help they need for up to two years. But after that, if they're able to work, they'll have to take a job in the private sector, or start earning their way through community service.”<sup>4</sup>

Clinton clearly wanted to enforce work and responsibility, as evidenced by work requirements and time limits on welfare as well as strict child support enforcement. But he also envisioned a sizable role for government in rewarding work, ensuring health coverage, and providing training, child care and even community service jobs. Clinton's agenda focused primarily on families with children, presumably because of a special concern with the next generation and because federal policies have rarely done much to aid childless individuals and couples, outside of programs for the aged and disabled.

Clinton did not call for an end to government, but a redirection of its efforts.

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<sup>1</sup> Clinton (1991).

<sup>2</sup> Clinton (1991).

Implicitly he sought to move away from long-term cash welfare and toward greater support for work and workers, including greater investment in human capital, though this emphasis was muted when he talked about welfare reform.

Note that candidate Clinton also made a number of remarks that seemed to be in tension with each other. In the opening quote, he says he does not believe in big government, but he calls for government to do much more to support workers. He says he believes in a national child support enforcement system *because* parents (not governments) raise children. He would often indicate that the best ideas did not come from Washington and call for state flexibility, even as he described in detail the ideas that his administration would adopt nationally.

We next turn to an examination of what actually transpired during the administration, how the enacted policies altered incentives, and whether the President deserves the credit or blame for these changes.

### **A. Make Work Pay**

The administration moved almost immediately to make good on its pledge to ensure that families with a full-time worker wouldn't be poor. In his first budget Clinton proposed a dramatic expansion in the Earned Income Tax Credit (EITC) and explicitly chose levels to ensure that the combination of wages, EITC, and food stamps available to a family of four with a full-year full-time minimum wage worker would be sufficient to move that family out of poverty.<sup>5</sup> The expansion was passed as part of the first budget

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<sup>3</sup> Clinton (1992).

<sup>4</sup> Clinton (1991).

<sup>5</sup> Ellwood (1996).

for the new administration. The EITC is an earnings credit with benefits tied to level of earnings and the number of children. For each dollar earned up to a maximum, the parent gets a refundable tax credit from the government. For a parent with two or more children, the credit is currently 40 percent of earnings up to a maximum credit of roughly \$3,800—roughly triple the maximum for such families in 1992. For a minimum wage worker, this is the equivalent of a 40 percent pay raise. But as a family’s income rises above \$13,000, the credit is gradually reduced (at a rate of 21 cents per additional dollar earned) and the credit is fully phased out for families with incomes over \$30,000.

Clinton had not talked much about raising the minimum wage during the 1992 campaign, and it was not emphasized in his first two years, but as the issue gained momentum in 1996, he embraced the idea, and the minimum wage was raised from \$4.25 per hour where it had stood since 1992, to \$5.15 in 1997.

Clinton had also promised universal health coverage, but when his reform proposal collapsed (Cutler and Gruber, this volume), a series of more modest expansions in Medicaid, particularly for children, continued. Starting in 1986, Congress had adopted a series of expansions in Medicaid coverage for children and pregnant women.<sup>6</sup> As of June 1991, states were required to cover all poor children born after September 1983 until they reached age 19. Thus by 1999, all poor children under 17 were covered. States were given considerable flexibility to cover older and near poor children and many chose to cover many additional children.

As we will discuss below, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA—the welfare reform legislation) gave states

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<sup>6</sup> Committee on Ways and Means (2000, p. 894).

dramatically more flexibility in determining eligibility for public aid. To protect children from losing Medical coverage as a result of welfare reform, states were required to maintain an entitlement to Medicaid and to use eligibility criterion at least as generous as they had in place in 1996.

The most important low income health insurance expansion passed during the Clinton administration was the State Children's Health Insurance Program (CHIP or SCHIP), established under the Balanced Budget Act of 1997. The program provides federal matching funds for state-designed programs to provide health insurance to low income children. States have much more flexibility with respect to benefit structures and eligibility than under Medicaid. All states except one (Arkansas!) have made children eligible if their family's income is below 133 percent of poverty, with the majority adopting even higher eligibility limits.<sup>7</sup> Some \$24 billion in federal dollars was appropriated over five years for CHIP.

Child care funding was expanded considerably over the Clinton years. Prior to 1996 there were four major federal funding streams with varying requirements. Under PRWORA, these were consolidated into the Child Care and Development Block Grant (CCDBG) and child care funding was expanded. Moreover, states were given flexibility to transfer up to 30 percent of their cash assistance block grant into child care programs, and nearly all states have transferred some monies.

Finally the Taxpayer Relief Act of 1997 included a \$500 per child *non-refundable* tax credit which also offered support for working families. In 1999, two parent families with two children and incomes below \$18,000 (\$15,000 for a one-parent two-child

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<sup>7</sup> Committee on Ways and Means (2000, Table 15-27, pp. 932-933).

family) owed no federal income taxes and could not receive the credit. Since the poverty line for a family of four was \$17,029 (\$13,290 for a family of three) in 1999, the child tax credit primarily benefited near poor families. Two-parent two-child families earning \$25,000 and two-child one parent families earning \$22,000 would have qualified for the full credit.

Figure 1 indicates the dramatic increases in expenditures on four of these five major programs. The child tax credit is not included since it was not refundable.

- Between 1992 and 1999, annual real federal spending on these programs increased by over \$30 billion. To put this in perspective, in 1995, the year before the passage of PRWORA (and a peak year in welfare spending), the federal government spent a total of \$17.3 billion (1999 dollars) on the old Aid to Families with Dependent Children (AFDC) program. The EITC *increase* alone was nearly as large as the *total* amount the federal government was spending on AFDC when Clinton took office.<sup>8</sup>

#### *Impacts on Incentives and Sources of Concern*

These policy changes had dramatic effects on the incentives to work, particularly among single parents. For 1988, 1992, and 1999, Table 1 indicates how much a single mother of three could expect to receive if she did not work and collected welfare versus if she worked full time at the minimum wage. Welfare benefits vary state to state, and child care expenses vary across people, but the table gives a sense of how a typical person might fare.<sup>9</sup>

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<sup>8</sup> The chart excludes spending for AFDC/TANF, food stamps, and housing aid for working families because these figures are not available. There was a sizable recent increase in the number and share of AFDC/TANF who were working so adding these values would magnify the changes shown. The EITC increases reflect changes enacted under both the Clinton and the Bush Administrations. Large as the numbers are, Figure 1 may understate the long term increase in spending. The chart is based on actual expenditures. The State Children's Health Insurance Program has grown far more slowly than expected. Rather than spending the more than \$4 billion appropriated, only \$600 million was actually spent. Since that time, SCHIP has been expanding rapidly.

<sup>9</sup> Welfare benefits are based on the weighted average of state benefits, weighted by the share of all single parents who reside in the state.

- The payoff to working has increased dramatically since 1988, and particularly during the Clinton years. A full-year full-time minimum wage single parent who would otherwise be on welfare in 1988 would have a net gain of only \$2,325, and she would likely lose her Medicaid benefits, which might easily be worth more than that gain. By 1992 when Bush departed, the same woman would gain \$4,142 by working and her younger children would not lose Medicaid. In 1999, the gain to work had grown to over \$7,000, the children would keep Medicaid and even the woman would be eligible to keep it for a time.

A higher minimum wage and slightly lower welfare benefits contributed to this gain, but it is mainly the result of a sizable rise in the EITC and greater child care support.

On the one hand, Table 1 may understate the real change in incentives for work among single parents. By 1999 revised welfare programs were putting increasing pressure on welfare applicants and recipients to eschew welfare and enter the workforce. Thus the option to not work and collect welfare was increasingly unavailable. Over the past 12 years and particularly during the Clinton era, the incentives and pressures for lone parents to work expanded dramatically. On the other hand, Table 1 might overstate the changes since it assumes that women were receiving Food Stamps, child care supplements and Medicaid if eligible. As discussed below, many eligible families appear not to receive support from these programs in the late 1990s.

Note also that the table assumes relatively modest child care expenses, many families, particularly those with older children or who have relatives who could care for the children report less, but many families also report spending far more. If child care expenses are much greater, the returns to working would be less in both years, though the changes would look the same.

But these expansions in support for the working poor did not create unambiguously positive work incentives for all workers. In particular, they sometimes diminished work incentives for second workers married to low earners. Above \$13,000

in income, the EITC is reduced by roughly 21 cents per dollar earned. This phase-out adds to the high marginal tax rate low income workers may already face. This includes payroll taxes, whose employer and employee share totals 15 percent. If a family is collecting food stamps, they face a benefit reduction rate of 24 percent. Other assistance such as housing, child care, and medical benefits may also be phased out slowly. As of the year 2000, at approximately \$25,000 in income, a family would begin paying federal income taxes of 15 percent.

Few persons will face all of these reductions simultaneously, but

- A significant number of working families would face an EITC phase-out, payroll taxes, and either benefit reductions or federal taxes, resulting in a marginal tax rate of 50 percent or more. Candidate George W. Bush emphasized this problem when he described the “toll-gate to the middle class.” A mother married to a man earning \$15,000-\$25,000 who considers entering work would face a high tax rate on her earnings, above and beyond any child care or other costs.<sup>10</sup>
- The expanded worker supports targeted at the working poor also altered marriage incentives—generating both marriage rewards and penalties. If a non-working mother contemplates marrying a working childless man, her children and his earnings would allow them to qualify for the EITC and effectively creates a marriage bonus. But if a working mother earning \$10,000 considers marrying a working man, she will lose much or all of the EITC. His earnings will reduce her EITC. Thus they will face a marriage penalty.<sup>11</sup>

Phasing in benefits as family earnings rise creates a strong work and marriage incentive for non-working parents. Phasing them out once people get above some income threshold creates adverse work and marriage incentives in cases where someone

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<sup>10</sup> The recently passed Economic Growth and Tax Relief Act of 2001 raised the tax threshold considerably by doubling the child tax credit. The child tax credit was also made partially refundable further benefiting lower income working families. This significantly lowered the marginal tax rates facing people in the \$15,000 to \$30,000 category.

<sup>11</sup> The recent tax cut also improved for low income families under the too was improved by making the child tax credit partially refundable and by changes in the EITC plateau for married persons. A sizable marriage penalty remains.

is near or above that threshold.

*Does Clinton Deserve the Credit (or Blame) for These Expansions?*

Figure 1 indicates that support programs for low wage workers clearly did not originate with Clinton. The first EITC was adopted in the mid-70s and was significantly expanded under Ronald Reagan who labeled it “the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.” It rose again during the first Bush administration. Medicaid for children in working families was also sharply expanded during this period. Altogether work supports rose by nearly \$21 billion between 1988 and 1992.

But neither Reagan nor Bush ever focused much attention on the working poor. Clinton, by contrast, spent considerable time and political energy on the issue. The Clinton role was particularly clear during the years after 1994 when the Republicans gained control of Congress. Key Republicans, particularly Don Nickles, Chairman of the Finance Subcommittee on Taxation and IRS Oversight, emphasized problems with the EITC, focusing on its high error rates and large cost. Some GOP lawmakers sought to limit expenditures, but Clinton was very clear that he would not accept cuts in the EITC.

Similarly Clinton’s emphasis on work support influenced the final legislation that was passed. Clinton vetoed the first two Republican versions of welfare reform, noting that Congress should “provide sufficient child care to enable recipients to leave welfare for work” and “restore the guarantee of health coverage for poor families.”<sup>12</sup> The bill he finally signed left Medicaid intact and included significantly more child care money than the ones he had vetoed. On the other hand, the bill Clinton signed had major cutbacks for

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<sup>12</sup> Clinton (1996).

immigrants and childless food stamp recipients, both low-income groups that are employed at high rates, though these were not provisions Clinton favored.<sup>13</sup>

Clinton probably should not get much credit for the \$500 per child tax credit. After all, the 1994 GOP Contract With America called for a \$1000 per child tax credit. But here too, Clinton played a role in supporting low income workers. When the child tax credit was initially voted on, it included an EITC offset, effectively denying the new child credit to low income workers between roughly \$18,000 and \$25,000 who were getting an EITC benefit. Clinton threatened a veto and the provision was eliminated.

- Thus, while plenty of momentum had built up for supporting working families prior to his administration, Clinton should get substantial credit for giving priority to specific policies. Without his political attention to this issue, work supports for low-income families would almost surely have been much less.

## **B. Strengthen Child Support Enforcement**

Child support enforcement involves several basic steps. One must establish paternity, get an award in place and determine the amount of the award, locate the non-custodial parent, and collect the award. Until recent years, paternity establishment was rare and cumbersome. Awards were set once in nominal dollar values and rarely adjusted for changing circumstances. Locating absent fathers was hampered by limited information, lack of automated systems, and a high proportion of interstate cases. Data and tracking systems were often in terrible shape. It should not be surprising that by some estimates the system was collecting perhaps a third of what an ideal system would.<sup>14</sup>

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<sup>13</sup> For a detailed discussion of the legislative maneuvering that preceded passage of the 1996 legislation, see Weaver (2000).

<sup>14</sup> Sorenson (1995).

During the past 8 years, the administration and the Congress moved aggressively to adopt new measures:<sup>15</sup>

- ❑ **Streamlined and more immediate paternity establishment, including in-hospital paternity establishment and civil procedures for voluntary acknowledgement of paternity.** Nearly 80% of fathers are present at the birth of the child or visit the hospital, and both parents at the child's birth typically indicate a strong desire that the child's father be known. Yet paternity establishment often does not begin until several years after the birth and then only for purposes of collecting aid. After 2 years, roughly half of the original relationships had ended. In-hospital establishment has proven far more effective.
- ❑ **More automatic use of genetic testing.** Court procedures dating back to a time when blood tests were vastly less reliable often placed limits on testing and on their admissibility. New legislation required states to create a "rebuttable presumption" of paternity if the probability of paternity in the genetic tests exceeds a threshold established by the state.
- ❑ **New rules for updating awards.** States were required to update awards more often and to adopt one of several alternatives for moving towards more automatic updating.
- ❑ **Federal registry of child support orders and automated systems.** States were required to create automated registries of orders, collections and arrearages and to provide this information in a new Federal registry. Prior to this time many states did not even have a registry. And even though interstate cases constitute roughly 30 percent of all cases,<sup>16</sup> there was no national database of cases or arrearages.
- ❑ **National new hire reporting system.** Employers were required to collect and immediately report to the state the names and Social Security numbers of all new hires. State and federal officials were required to compare these to state and national registries of child support orders. If an arrearage was found, states were required to have the employer begin wage withholding immediately.
- ❑ **New penalties.** New laws expanded wage withholding, provided for the revocation of drivers' licenses and the suspension of professional licenses, denial of passports, and many other measures for those with unpaid child support.

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<sup>15</sup> This draws heavily on Committee on Ways and Means (2000) and Department of Health and Human Services (2000).

<sup>16</sup> Weaver and Williams (1989).

- **Expanded Data Matching.** Data matching of the child support registries with information from various sources, particularly financial institutions, was mandated, allowing easier access to information on the assets of delinquent parents.
- **Pay “parents first”--priority for families when both states and families have child support claims.** States have a right to claim most child support payments owed to mothers on welfare during the time they collect aid. Often large arrearages build up. When a mother leaves welfare, many states were insisting that any child support money paid after that time go first to the state to pay off this arrearage leaving the mother with nothing even though she was no longer on welfare. The new policies required that payments owed to families had priority.
- **Access and visitation grants and experiments.** Money was also provided for grants to help states increase and improve visitation by fathers. In addition, money was provided for various state-initiated demonstrations.
- **Altered State Reimbursement Formula.** Reimbursement formulas and incentive payments were adjusted to take account of more than just the dollars collected per dollar spent. Previous formulas discouraged pursuit of all but the cases that promised the most immediate and largest potential for collections.

Collectively these were radical changes in the child support enforcement system, changes that proponents hoped would significantly increase collections and enhance the economic position of children in lone parent families. But one change in welfare reform may have had negative consequences for child support collections and support of children:

- **Elimination of Mandatory \$50 Pass-Through.** The welfare reform legislation eliminated a requirement that states automatically pass through the first \$50 per month of child support collected for a child on welfare without any reduction in welfare benefit. The new legislation allowed states to simply use all child support money collected for TANF recipients to reduce benefits, thus providing no net gain to the child.

*Impacts on Incentives and Sources of Concern*

Child support collections also have mixed incentives.

- Increased child support collections coupled with a “pay families first” policy creates unambiguous work incentives for custodial parents. If they remain on

welfare, the state will keep any child support they collect as an offset for welfare (less any pass-through if the state so chooses). But if a custodial mother goes to work and no longer receives welfare benefits, she would get all that child support that was owed and collected. This would be added to her wages, EITC, and other supports.

Thus on Table 1, if child support collections added another \$500 per month, a mother's incentive to work would rise accordingly.

- Child support may also serve as a tax on non-custodial parents. Whether or not such payments are perceived as taxes will depend on the use of the money. If the money goes to the support of the child, the non-custodial parent need not see this as a tax in the same way that custodial parents do not consider the support of their children a tax on earnings. On the other hand, if the money is just going to offset state expenditures when the custodial parent is on welfare, child support payments are close to a pure tax.

And in cases where the non-custodial parent resents providing support or believes the money is wasted by the custodial parent, it may be even more psychologically upsetting than an income tax of an equivalent size. Relatively little work has been done about the incentive effects of child support payments.

Child support enforcement also raises questions about the appropriate role for males in separated families. Some scholars and father's rights advocates complain that men are increasingly seen only as a source of financial support, not as people who could offer nurturing and direction. Some also worry that young black men are being further stigmatized and unfairly burdened by excessive child support obligations that they cannot pay.

*Does Clinton Deserve the Credit (or Blame) for These Changes?*

Child support enforcement has always enjoyed bipartisan support in Congress. Still the complexity of the issues and the need to understand the variation across states makes it difficult for Congress to take the lead in such legislation. In our view, Clinton probably deserves almost full credit for these initiatives. Most of the child support

reforms were included either in Clinton's original budget proposal for 1993 or in the Work and Responsibility Act of 1995—Clinton's original welfare reform bill. Indeed more pages of that bill were devoted to child support enforcement changes than to classic welfare reform provisions. In 1996, when Republicans gained control of the Congress, they crafted their own welfare reform bill that included no child support enforcement provisions. Pressed for such measures by both Democratic and Republican members (notably Republican women), the drafters largely adopted the Clinton proposals wholesale with only minor changes. The major omission was money for a demonstration of child support assurance, a plan by which custodial parents with an award in place would be guaranteed some amount for child support even if the state failed to collect the money.

- Here too, then, Clinton deserves considerable credit. While support for these measures was bipartisan, they had been crafted by the administration.

### **C. Welfare Reform**

After taking office the Clinton Administration continued and expanded the practice of issuing “waivers” to states that wanted to experiment with substantial revisions in the delivery of public assistance programs. As more and more states became interested in welfare reform, waiver applications increased and waiver proposals became more extensive. By 1996, 26 states had major state-wide waivers in operation, mostly allowing them to run more extensive and more strictly enforced welfare-to-work programs than the AFDC program would normally allow. The state waivers were an important precursor to federal welfare reform legislation, and created a constituency in the states for greater state flexibility and control over public assistance.

In 1994 the Clinton administration proposed a welfare reform bill. The original

Clinton plan called for all recipients to begin training or job search activities immediately upon beginning welfare. It set a two year time limit on cash aid, but certain activities stopped the clock, such as part-time work if one had a preschooler or full-time work if children were over 6. After two years, recipients would be required to work. If they could not find an unsubsidized job, a subsidized one would be created. States were given greater flexibility but welfare remained an entitlement, meaning that all who qualified were guaranteed aid.

The Clinton bill died when Republicans took control of Congress in 1996. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) passed and signed in the summer of 1996 was very different from Clinton's original conception. Among other things it abolished the Aid to Families with Dependent Children (AFDC) program and replaced it with the Temporary Assistance for Needy Families (TANF) block grant. Its major provisions were:

- ❑ **Block grants replaced matched funding**—States were given fixed block grants equal to or greater than what their average spending had been in the 1992-1994 period.<sup>17</sup> This shifted the financial risk of changes in demand for public assistance onto the states, whereas this risk was shared under the older matching grant system.
- ❑ **75 percent maintenance of effort (MOE) requirement**—States were required to spend 75 percent of what they used to spend on AFDC on their TANF programs. What could be counted toward this MOE was relatively broad (including “any other expenditures which further the goals of” the act.).
- ❑ **Entitlement eliminated**—States were no longer required to cover everyone who met their income and eligibility requirements.
- ❑ **Fully flexible eligibility**—States could determine whatever eligibility criterion they choose. Thus benefits need not be limited to single parents as they largely were under AFDC. States could determine benefits, maximum

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<sup>17</sup> States were given the maximum of the annual average in 1992-1994, the spending in 1995, or a rather complicated third formula.

asset levels, earnings disregards to reward work, and the like. They could require work or participation or any other activity as a condition of eligibility.

- ❑ **Five year maximum time limit**—PRWORA set a lifetime limit of five years on TANF-funded aid. States can exempt up to 20 percent of the caseload under a “hardship exemption”. States are free to set shorter time limits if they choose, or to continue funding after five years entirely out of state funds.
- ❑ **Work requirements or caseload reductions**—By 2002 at least 50 percent of all recipient families and 90 percent of two parent families were required to be working. However, the law stated that any caseload reductions below the 1995 level were treated as equivalent to work. Thus a state which reduced its caseload by 50 percent would meet its work requirement regardless of how many current or former recipients were working. States were also mandated to require “work” by recipients after two years, but states could define work in almost any manner they chose, and there were no penalties associated with failure to meet this provision.
- ❑ **Significant expansions in child care**—Several child care programs were consolidated into a single block grant. Significantly more child care money was included for women leaving welfare. And states could transfer some of the regular TANF funds into child care.
- ❑ **Bonus funds for reducing non-marital birth rates**—States that reduced out-of-wedlock child bearing without raising abortion rates qualified for special bonuses.
- ❑ **Reductions in food stamp eligibility**---States were given more discretion about how they enforced the food stamp rules (and more ability to sanction non-compliant recipients). Work rules were added for 18-50-year-olds without dependents.
- ❑ **Reductions in eligibility for aid among *legal* immigrants**—Illegal immigrants were already denied nearly all federal aid. The bill added new restrictions on receipt of TANF, food stamps, and Supplemental Security Income (SSI, the program for the aged and disabled) for many legal immigrants who were not (yet) citizens, particularly those who were admitted because they were relatives of citizens.<sup>18</sup>

#### *Impacts on Incentives and Sources of Concern*

Supporters of this approach emphasized several features. States would finally be

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<sup>18</sup> Sponsoring relatives must sign an affidavit indicating that the entering relatives will not become a “public charge”. Virtually all of the cost savings from this legislation occurred because of the food stamp and immigrant cuts.

given the flexibility they had been seeking to implement real welfare reforms.

Governors emphasized that they cared as much about the welfare of their citizens as federal bureaucrats did. This bill would allow them to implement genuine work-focused reform without using the cumbersome waiver process. Conservatives also proclaimed the end of the entitlement as an important signal. No one was guaranteed welfare anymore. Recipients could and would be expected to take responsibility for themselves.

The immigrant and food stamp cuts were themselves quite controversial and though benefits were partially restored in 1997, tough rules remain in place for recent legal immigrants and for many non-elderly, non-disabled adults.

- The potential negative impact on green card holders and their families will grow over time. Given the recent rise in immigration notably among very poorly educated persons, an increasing number of families who have come to the United States legally will be at risk of extreme poverty if they are unable to find work.

Critics also identified three major sources of concern regarding the TANF provisions: its greater emphasis on time limits and caseload reductions than on work, the dangers of a block grant system of financing, and the question of whether recipients could get decent jobs or any jobs at all.

Work versus caseload reductions—Opponents argued that, for all the talk about work, the bill was crafted to produce caseload reductions. The lifetime five year cutoff seemed particularly draconian, since a sizable majority of those on welfare at a point in time would eventually reach the limit under the current AFDC program.<sup>19</sup> Unlike Clinton's original proposal, states were not even allowed to use federal funds to help create subsidized jobs for people who hit the five year federal time limit without finding

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<sup>19</sup> Bane and Ellwood (1994).

work. Even more striking was the provision that called for high levels of work *or* equivalent levels of caseload reductions. In fact, states could meet the requirement of this bill without putting one more person to work, simply by moving them off welfare.

Note, however, that a closer examination of the bill suggests that pressures to push people off welfare were easily avoided if states chose to do so. The five year cut off applied only to federal aid. State money, including money counted toward maintenance of effort, could be used to support people beyond the five year limit.

Moreover, states could completely redefine who was eligible for aid and under what conditions. Thus states could add working poor persons to aid and count their work. With some creative design and bookkeeping, states were given essentially complete authority to arrange public assistance as they saw fit. If they chose to largely maintain the present system, they could. If they wanted to implement the original Clinton vision, they could. If states wanted to essentially end welfare entirely, they could.

What is harder to gauge, but potentially just as important, is the extent to which the rhetoric of PRWORA led states to adopt more radical reforms. The whole tone of the reform sent a strong message to state administrators that the mission of welfare offices was no longer to determine eligibility and compute the proper amount of the check, but rather to move people quickly off welfare, and, hopefully, into employment.

Matching Versus Block Grants—The switch from matching to block grants was another source of controversy. Under a matching grant system, the marginal cost of spending another dollar on public aid was reduced by the amount of the match. States such as Connecticut or California got a dollar for dollar match so the price of support was cut in half. In Mississippi, the state had to cover only 20 percent of the costs. For each

dollar they spent in state money, the federal government would provide another four.

Simple economic theory suggests that if one lowers the cost of providing a service, more will be provided. The Federal match could be justified in part to deal with the externalities of operating a solely state-based system. States might worry that high benefits would attract recipients from other states, and thus would set benefit levels lower than they otherwise might.

- Several prominent scholars, most notably, Peterson (1995), expressed concern that by removing the incentives inherent in a match, a block grant system would lead to a race to the bottom as states compete to discourage poor families from living in their borders.

In addition, differences in wealth across states might leave some states less able to provide for their poorer citizens. A subsidy which varied by the income and wealth of the states helped overcome this problem.

- Another fear was the loss of the automatic stabilizer effect. When economic conditions worsen in a state, the caseload rises. With matching grants, the federal government covered at least half of the new costs, thus stimulating the troubled economy. Under a block grant, states get no new aid during recessions.
- Overlooked in the worries about block grants was their upside potential in strong economic times. When caseloads and expenditures fall, so would federal matching funds. But the TANF block grant amount was based on expenditures when caseloads were at historic highs. As the economy improved in the late 1990s and caseloads began to fall, states suddenly had substantial excess resources. They could devote far more to services and supports for people leaving welfare, and many chose to do so. Thus there was no immediate pressure to race to the bottom since government budgets were not stressed.

One other feature of the block grants got almost no attention. The block grants locked in place a remarkably uneven distribution of federal funds. Table 2 shows the median family income and TANF grants per poor child in a representative group of states. The dates 1996-1997 were selected to illustrate that the variability was built in

from the start.

- By locking in place existing allocations, TANF grants per poor child are much higher for richer states than for poorer ones. Indeed Arkansas and Mississippi with median family incomes of close to \$32,000 received grants of \$298 and \$412 per poor child. Connecticut and Wisconsin with family incomes of \$50,000 or more, nonetheless received roughly \$1,800 per poor child.

Even though Arkansas and Mississippi had a much higher match rate, Connecticut and Wisconsin spent so much more on welfare that they got much more federal aid per poor child under the AFDC program. PRWORA simply locked in place those differences. It seems inconceivable that a block grant program designed from scratch would give four or five times more per poor child to rich than to poor states.

Availability of jobs for welfare recipients—Welfare recipients are often poorly educated. In 1995, nearly 40 percent were dropouts, and only 16 percent had any schooling beyond high school. Some 45 percent had children under the age of 6. Almost 60 percent were never married mothers. Some 37 percent were black and another 20 percent Hispanic.<sup>20</sup> At least 40 percent had not worked in the past 2 years.<sup>21</sup> Danziger et. al. (2000) report that a quarter have major depressive disorders and 22 percent have children with significant health problems.

- Opponents feared that even in good times, many of these mothers may not be particularly employable. There were also fears that a major influx of welfare mothers could not be absorbed into the economy. And even if the women were employed, several studies cast doubt on whether they would be able to support themselves and whether their wages would actually grow over time.<sup>22</sup>

In response to these and related concerns, the Administration and the Congress enacted several measures designed to increase the demand for welfare leavers. They

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<sup>20</sup> Committee on Ways and Means (1998, Table 7-19, p. 441).

<sup>21</sup> Bane and Ellwood (1994).

extended the Work Opportunity Tax Credit which provides employers with a credit of 40 percent of wages up to a maximum of \$2,400 for the first year pay of persons in target groups including TANF leavers. The Welfare-to-Work Tax Credit was adopted, which provides employers with a credit of 35 percent of the first \$10,000 in pay in the first year and 50 percent of the first \$10,000 in pay for the second year of employment of a TANF leaver. The Welfare-to-Work Grant Program created a two-year, \$3 billion fund program to be used for programs aimed at hard to serve welfare clients. Clinton sponsored transportation and housing initiatives designed to help mothers leaving welfare. And the President helped set up the Welfare-to-Work Partnership, a non-profit organization chaired by key business leaders with a mission “to provide innovative workforce solutions for companies through hiring, retaining and promoting welfare recipients and other unemployed and low-income workers.”<sup>23</sup> This group worked to inform employers of the opportunities to hire recipients and the tax and other benefits of doing so.

*Does Clinton Deserve the Credit (or Blame) for These Changes?*

Unlike in the make-work-pay and child support enforcement arenas,

- The welfare bill that emerged was dramatically different from Clinton’s original vision. It enacted a devolution of program and financial responsibility from the federal government to the states, coupled with incentives and strong rhetorical signals about the need for states to reduce caseloads and move people into work.

Clinton did influence the final bill. He vetoed two earlier versions, primarily on the grounds that they also block-granted Medicaid, but also because of insufficient child care dollars. These elements were changed in the final bill. Even when he signed the bill, he complained about harsh treatment of legal immigrants and food stamp cuts, and

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<sup>22</sup> Burtless (1997).

promised to work to change those provisions—and he was partially successful at doing so. But he never took a stand opposing the basic structure of the Republican welfare plan and its basic structure changed little from the first to the last Republican bill.<sup>24</sup> This was a bill largely shaped by Republican governors, notably Tommy Thompson of Wisconsin and John Engler of Michigan. As a former governor himself, Clinton always seemed very comfortable with such dramatic devolution.

- But, if a major effect of the bill was to alter the political and social climate (rather than changing the locus of control over welfare), then Clinton’s role may loom larger. Many observers argue that Clinton’s rhetoric about “ending welfare as we know it” and “two years and you’re off”<sup>25</sup> sharply altered the political landscape and legitimized a far more energetic attack on the present welfare system.

Clinton often talked about the present system being broken. Clinton again and again signaled his enthusiasm for state experimentation, even if he did not like the particulars. And his was the rhetoric of work and responsibility that came to dominate the discussion.

There is real irony for Clinton here. Those who are deeply troubled by the bill place considerable blame on Clinton, decrying his incendiary rhetoric and his unwillingness to veto the final bill even though most of his cabinet urged him to do so.<sup>26</sup> Those who like the bill give the Republican Congress and governors the credit, since the bill was so far from the original Clinton vision.

#### **D. Housing and Urban Economic Development**

Candidate Clinton said much less about housing and urban policy during the 1992

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<sup>23</sup> [www.welfaretowork.org](http://www.welfaretowork.org).

<sup>24</sup> Weaver (2000).

<sup>25</sup> To our knowledge, Clinton never actually used this phrase. But it was widely used to describe the basic Clinton principle and the administration never sought to rephrase it as the more accurate “two years and

campaign than about work and welfare proposals. But the need to establish enterprise zones—special zones within urban (or rural) areas targeted for community development where businesses could qualify for special tax treatment and residents might get special services—was a frequent theme. He did not offer a new vision of housing policy, but he talked publicly and regularly about the problems of urban areas and he decried past failures and the concentration of poverty that public housing sometimes yields.

#### *Urban Economic Development*

Throughout his administration, Clinton emphasized the need to develop and “empower” poor urban communities. Clinton tended to emphasize devolution and a public-private partnership. Major initiatives included:

- **Empowerment zones and enterprise communities (EZ/EC)**—The Omnibus Budget Reconciliation Act of 1993 authorized the establishment of empowerment zones (heavily funded areas) and enterprise communities (less richly supported areas) as part of Clinton’s Community Empowerment Agenda. Communities competed for designation as one of the zones, and had to demonstrate that business, government, residents, and community organizations were involved in developing a community revitalization plan. The first round designated 11 Zones and 94 Enterprise Communities in 1993 and 1994. EZ/EC provided approximately \$2.5 billion in tax incentives and \$1.3 billion in flexible grants to these areas. An additional 15 urban and 5 rural communities were designated as Empowerment Zones in a second round in January 1999.
- **Community Development Financial Institutions (CDFI)**—The CDFI Fund, created in 1994, was designed to bring more capital to areas inadequately served by traditional financial institutions. CDFIs include community development banks, credit unions, loan funds, venture capital funds, and micro enterprise loan funds. The Fund invests in these institutions using a variety of vehicles including equity investments, loans, and grants. The CDFI can provide funding for a range of services including mortgages, commercial loans, housing rehabilitation and the like. By 1999, there were 270 designated

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you work”.

<sup>26</sup> See especially Edelman (1997).

CDFIs and more than \$190 million had been distributed.<sup>27</sup>

- **Economic Development Initiative (EDI) and other changes in the Community Development Block Grant (CDBG)**—A number of changes were made to the existing CDBG program (originally created in 1974), which provides federal resources for local development activities. Overall funding increased from roughly \$3.5 billion to \$5 billion (in 2000 dollars). Under EDI (begun in 1994), current and future CDBG grants are held as security for loans that enable communities to pursue public/private housing rehabilitation, economic development and physical development initiatives.
- **New Markets Initiative**—On December 14, 2000, as Clinton was preparing to leave office, he signed an initiative jointly created with House Speaker Dennis Hastert designed to “encourage private sector equity investments in underserved communities.”<sup>28</sup> It included a series of tax credits, low interest loans, and equity matching plans to both reward those who invest in low income communities and persons who provide capital to institutions that finance business loans in those areas. It also increased the Low-Income Housing Tax Credit (LIHTC) cap on money available for low income housing from \$1.25 to \$1.75 per capita.<sup>29</sup>

In addition, the administration had a variety of microenterprise programs totaling roughly \$60 billion to help low income individuals begin small businesses.<sup>30</sup>

### *Housing Policy*

There are a variety of ways in which housing is supported by the federal government. The deductibility of home interest, FHA and VA loan guarantees, and various grant and loan programs through which local jurisdictions can subsidize the purchase of homes by moderate income families all support home ownership. And the administration expanded a number of these, including some programs to help those getting rental assistance become homeowners.

Rental assistance serves more low income families than homeownership programs. Such aid typically comes in one of four ways: public housing, federal

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<sup>27</sup> Office of the Press Secretary (1999).

<sup>28</sup> Office of the Press Secretary (2000).

subsidies paid to private firms to construct housing to be occupied by low income families or individuals, negotiated agreements with existing landlords providing subsidized rents for particular units, and tenant-based assistance whereby the rent of particular *households* is subsidized. In some, but not all cases, tenant based assistance is portable, meaning it can be used to rent any apartment meeting certain standards.

Housing aid is not an entitlement and availability varies widely across cities. Kingsley (1997) reports that only about one-quarter of those eligible actually get aid. Among those on AFDC the number is closer to one fifth. Long waiting lists for housing assistance are common, with priority often given to the homeless.

Originally, the design, construction, and control of public housing was almost entirely left to local public housing authorities. Federal public housing support came in the form of fully subsidized construction costs, while maintenance had to be covered by local authorities out of rents. Predictably, many public housing projects were massive high rise cement buildings that maximized capital and minimized operating costs.<sup>31</sup> The combination of capital subsidies, and an allocation scheme that sometimes targeted aid on the poorest of the poor meant that housing, particularly public housing often concentrated and isolated poor families.

Starting with the Reagan years and continuing into the Bush years, net new construction in both public and subsidized private housing largely stalled. Most growth came in the form of increased numbers of household/tenant based renter assistance. Eligibility rules further targeted the poor.

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<sup>29</sup> US Department of Housing and Urban Development (2000).

<sup>30</sup> Else and Gallagher (2000).

<sup>31</sup> Muth (1973).

- Perhaps surprisingly, the Clinton years were a time of even less growth in new commitments for rental assistance than under the previous Republican administrations.

During some years of the Carter administration, there were over 350,000 new commitments for subsidized housing. These averaged over 100,000 a year during Reagan. The Bush administration provided roughly 75,000 new commitments per year. But during the 1994-1999 period, just over 30,000 net new commitments were made each year. Finally in 2000 and 2001, the number jumped above 100,000, in part as a result of 50,000 new vouchers committed for special “welfare-to-work” housing vouchers.

- The Clinton era did coincide with important changes in the nature and shape of housing assistance. The general goal was to reduce the high concentration of poverty families that scholars such as Bill Wilson had pointed to as being so pernicious.

With the passage of the HOPE VI program in 1993, HUD embarked on a new strategy designed to replace the old high density public housing projects inhabited by concentrated poor populations with lower density projects for a mix of income classes. HUD also sought to provide improved support services to residents. Displaced residents who could not be accommodated in the new buildings were given vouchers to purchase rental housing in the larger marketplace.<sup>32</sup>

For the first time since 1950, the number of public housing units actually declined noticeably.<sup>33</sup> There were over 1.4 million public housing rental units when Clinton took office in 1993. By the time he left, the number had fallen by 10 percent,<sup>34</sup> offset by increases in tenant based supports. HUD also sought to tighten rules that forced out drug

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<sup>32</sup> The program received an Innovations in Government Award from Harvard’s Kennedy School of Government.

<sup>33</sup> Quigley (2000), Figure 1.

<sup>34</sup> Table supplied by Chad Chirico, Congressional Budget Office.

dealers and others who had been convicted of criminal activity.

The 1998 Quality Housing and Work Responsibility Act included a wide range of reforms designed to further reduce poverty concentrations in public housing, target new voucher aid on the lowest income families, make vouchers more “portable” so that people could move to other regions for better employment, and hold rents fixed for a time for people leaving welfare for work. And in 1994, HUD began a series of Moving to Opportunity experiments designed to test, using randomized controls, whether or not helping low income families move to higher income neighborhoods would improve their economic prospects and school performance.

*Impacts on Incentives and Sources of Concern*

This was not a period of revolutionary change. The number of families getting housing aid was essentially the same at the end of the period as before it. There were modest alterations in rent and eligibility rules, but benefits did not change much. Still there was a serious push to encourage investment in low income communities. And there was a clear attempt to reduce the impact of assisted housing on concentrating poor families.

- Evaluations of earlier enterprise zone policies have shown mixed results.<sup>35</sup> Clinton’s EZ/EC policy clearly sought to deal with some of the criticisms of previous enterprise zone policies—particularly their failure to address issues of social isolation and job readiness—by requiring a comprehensive plan and by making cities compete for funds. Still the obvious question remains whether targeted investment strategies merely rearrange jobs in the metropolitan area and whether they actually reduce poverty and improve the lives of poor residents.

There is near unanimous support for the principle of poverty deconcentration and economic integration. Recent changes in housing programs seem to reduce somewhat

strong opposite incentives imbedded in past housing policies. Moving towards greater use of housing vouchers, particularly for the very poor, and redesigning public housing should help. But the number of housing projects replaced is still modest. And over the eight Clinton years, the shift from public housing to tenant/voucher based support amounted to a shift of roughly 5 percent of the assisted population—which in turn implies that only about 2-3 percent of all poor households were switched, since only a portion of poor families get housing.

The administration also moved to reduce at least for a time the high cumulative marginal tax rate faced by housing assisted families moving from welfare to work. Families in assisted housing typically must pay 30 percent of their income toward rent. This adds to the high marginal tax rates already mentioned above. By delaying rent increases that would normally be required of families getting more income as they moved from welfare to work, these incentive problems were presumably reduced somewhat, though only temporarily.

The administration did not tackle the larger questions in housing policy, like whether cash support would be more effective than earmarked housing aid; why housing assistance is provided to only a subset of those eligible; and whether the mix of aid for families versus incentives for new construction is appropriate. But it does appear that over the Clinton years, the benefits of housing support were maintained while some of the negative consequences were lessened.

*Does Clinton Deserve the Credit (or Blame) for These Changes?*

Clinton inherited a Department of Housing and Urban Development beset by

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<sup>35</sup> See, for example, Vidal (1995), Wolf (1990), Papke(1993).

severe management problems. Clinton, himself, cut the HUD budget. Particularly when Republicans took control, there was enormous Congressional skepticism about the Department and its policies. Budget cuts led to the possibility of HUD being unable to even continue existing commitments to subsidized families. By most accounts this situation is significantly improved today and there has even been some resumption in the issuance of new housing vouchers.

- In general the Clinton administration continued and improved upon policy directions that were already in place for significantly improving the administration of HUD.

Republicans such as Jack Kemp had long been advocates of enterprise zones and Bush had proposed them. He had vetoed a bill that created them only because it included tax increases. Clinton gets credit for the size and shape of his EZ/EC proposal and for keeping it a program of sizable aid for a few cities rather than a small amount of aid for a plethora of cities, the way Model Cities became in an earlier era.

Similarly the growing preference for housing vouchers over public housing reflects a long term trend dating back at least 20 years. But Clinton did more to change the nature of public housing than previous administrations had and he accelerated the move toward encouraging greater geographic mobility among poor families.

## **II. What Outcomes Changed During the Clinton Administration?**

In this section, we focus on a key set of outcomes that are closely related to the above policy changes. In particular, we look at caseload declines, at changes in labor force behavior among less-skilled persons, at changes in poverty and income among low-income families, at changes in child support collection and paternity establishment, and at changes in housing and poor neighborhoods.

In most cases, we are able to document the coincidental timing of policy changes and changes in behaviors and outcomes with some reliability. It is much harder to prove causality or to nail down exactly what share of the behavioral change was due to policy, although we cite a variety of research studies that try to do just this.

#### **A. Caseload Declines.**

The number of families receiving AFDC rose sharply during the economic slowdown of 1990-91, and continued to rise through the early years of the 1990s. Concern about these rising caseloads was one reason governors were so actively involved in supporting major welfare reform in the mid-1990s. Figure 2 plots AFDC/TANF caseloads between 1970 and 2000; the 1996 welfare reform is marked with a vertical line (we discuss the Food Stamp trends shown in Figure 2 below.)

- Caseload numbers peaked in 1994 and started to turn down, two years before PRWORA was passed. They plummeted for the remainder of the decade. By 2000, the number of households receiving support from the TANF block grant was less than half of what it had been in 1994.

While the magnitude of decline differed slightly across states and geographic regions, all areas of the United States experienced unprecedented caseload declines in the last half of the 1990s.

These declines are all the more striking since they surprised the supporters of welfare reform as much as the opponents. In debating the 1996 legislation, no one predicted more than mild reductions in caseloads in the near future. The speed of this decline took observers by surprise. Proponents of the legislation (and governors who were implementing new TANF-funded programs) claimed this as evidence of the success of their initiatives, while opponents worried about how families who had left welfare

were faring. Indeed, one of the best determinants of a person's welfare politics in the late 1990s was whether or not the individual saw declining caseloads as a good outcome versus a serious problem.

*Was Policy Change Responsible for the Caseload Declines?*

A rapidly growing literature relating to these caseload changes has sprung up in the past 5 years. Most of the caseload studies utilize state panel data over the 1980s and 1990s to investigate caseload changes over time within states.<sup>36</sup> These papers attempt to separate the effects of the economy (typically measured by state unemployment rates) from the effects of policy (typically measured by a variety of variables, including AFDC/TANF benefit levels and dummy variables to indicate the timing when welfare waivers or TANF-funded programs were implemented within a state.) Some studies also control for a range of political and demographic variables within states, although these controls appear to have little effect on estimated economic and policy effects.

These studies also include state fixed effects, to control for any state-specific variables that might affect overall caseload levels within a state. This means that the resulting estimates can be interpreted as showing how economic and policy variables influence caseloads over time within a state, without explaining differences in cross-state variation. Most studies also include year fixed effects (to remove any common national "shocks"); this has the effect of removing variation due to increases in the EITC or national minimum wage, since these policies are enacted everywhere at the same time.

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<sup>36</sup> For instance, see Council of Economic Advisers (1997), Council of Economic Advisers (1999), Wallace and Blank (1999), Figlio and Ziliak (1999), Ziliak et al. (2000), or Blank (2001b). Grogger (2000) uses microdata from the CPS rather than aggregating to state panel data, in order to control for individual family characteristics. Moffitt (1999) and Schoeni and Blank (2000) use state panel data, but differentiate between age and education groups within states. Blank (2001a) provides a more detailed and technical review of

The earliest studies focused on measuring the effects of state waivers on caseloads, utilizing data from *before* the enactment of the 1996 PRWORA legislation. The fact that different states enacted waivers at different times (and some states never enacted waivers) provides variation from which to measure the impact of these policy changes. Later studies have tried to measure the additional effects of states adopting new TANF-funded programs. This is, however, difficult, since most states switched from AFDC to TANF at about the same time, providing no variation in implementation by which to identify the separate effect of enacting a TANF program within a state. For instance, Schoeni and Blank (2000) try several different ways to estimate a separate TANF effect on caseloads (and other variables) and discuss the problems of interpretation in these estimates.

- Not surprisingly, most studies find a significant effect for both policy and for the economy. The stellar economic growth of the late 1990s produced low unemployment rates and growing wages even among low skilled workers. Simultaneously the combination of expanded work supports (such as the enhanced EITC) and PRWORA ushered in the biggest change in U.S. social policy towards the poor since the 1930s.

One commonly cited study is that done by the Council of Economic Advisers in 1999. This study finds that a one-point decline in the unemployment rate causes state caseloads to fall by about 6 to 7 percent over the long term. The implementation of a state waiver reduced caseloads by 8 to 9 percent, on average, while the implementation of TANF reduced caseloads by another 18 to 19 percent—though a portion of this growth is probably attributable to changes in the EITC as well. These results are consistent with those found in Schoeni and Blank (2000), and with earlier studies that focused on waivers only such as Council of Economic Advisers (1997); Blank (2001b); and Wallace and

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this literature, while Bell (2001) provides a more policy-oriented review.

Blank (1999).

A few studies have argued that policy effects were unimportant to the caseload decline, notably Ziliak et al. (2000) and Figlio and Ziliak (1999). Frankly we are quite skeptical. These studies tend to use complex specifications, which involve multiple lags of economic and policy effects as well as lagged independent variables.<sup>37</sup> The very strong economy of the late 1980s pushed down unemployment sharply yet did not produce very noticeable effects on caseloads. The idea that a somewhat stronger economy alone can explain a 50 percent reduction in caseloads when previous economic changes produced barely noticeable effects strikes us as highly implausible. The correlation between state caseload declines and state economic improvement is modest. Meanwhile, those who actually run welfare offices report that the nature of their work has changed dramatically and testify that this has changed recipient behavior.

At some level, it may be impossible to truly separate out policy effects from economic effects over the 1990s. The two obviously interact with each other. The strong economy allowed states to move faster in redesigning their welfare programs to emphasize work. The EITC rewarded work. And recipients pushed off welfare entered a market relatively rich with jobs. We believe that these reinforced each other in a simultaneous process that produced unprecedented behavioral changes.<sup>38</sup>

- Overall, we believe that the evidence suggests quite strongly that the welfare

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<sup>37</sup> In our opinion, these estimates are “over-specified” and it is not perhaps surprising that – given the delicacy of identifying these policy effects – one can drive them to zero with diligent effort. Klerman and Haider (2000) argue that all these caseload studies are misspecified, and utilize separate data on welfare entrants and welfare exits from the state of California to test their preferred specification. They find both policy and economy variables matter.

<sup>38</sup> The issue of identifying separate policy effects also arises in attempts to measure the impacts of the EITC versus welfare reform on increasing labor force participation, discussed below. Several authors including Ellwood (2000) and Meyer and Rosenbaum (1999) suggest that the effects of welfare change, expanded work supports and the economy are interactive and cannot be meaningfully disentangled.

policies of the 1990s – state waivers as well as the enactment of PRWORA – were an important factor in reducing caseloads. But by themselves, these policies would not have produced the really dramatic caseload declines of the past five years. The strong economy and increases in the returns to work (such as the increase in the EITC) were also important and reinforced the incentives for women to leave welfare more quickly or to avoid receiving it in the first place.

*Food Stamps and Medicaid.*

So far, we have focused on the utilization of AFDC/TANF. But AFDC was the “gateway” program through which many women and children also became eligible for Food Stamps and for Medicaid. Reductions in the use of cash public assistance have had a major impact on the utilization of other public assistance programs as well. Declines in caseloads are more troubling if they are correlated with declines in Food Stamp and Medicaid usage as well.

The dotted line in Figure 2 shows how Food Stamp caseloads have changed over time. Food Stamps expanded in the late 1970s (due to a variety of program changes that made them more accessible.) With the advent of welfare-to-work programs, however, many expected Food Stamp utilization to remain high even as welfare caseloads fell.

- While some welfare falls were anticipated, large food stamp declines were a particular surprise. As women moved into low-wage jobs, it was expected that they would still need the additional income supplementation provided by Food Stamps; most women working in near-minimum wage jobs remained eligible for some Food Stamp assistance. As Figure 2 indicates, however, Food Stamp usage has plummeted almost as quickly as AFDC/TANF usage, although this decline has slowed down in the past year.

The historical determinants of Food Stamp usage are quite similar to those of AFDC,<sup>39</sup> even though Food Stamp eligibility rules are quite different from AFDC. Food Stamps have historically covered *all* low-income persons, not just families with children,

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<sup>39</sup> Wallace and Blank (1999).

and also provided assistance at higher income levels than most state AFDC programs. But in reality, most families who received Food Stamps also received AFDC.

Food Stamp offices did little to bring eligible working families onto their rolls. Indeed, most offices were set up to discourage Food Stamp use among working families. They were open only during work hours and required regular visits by recipients. Furthermore, working adults were more difficult cases to process, since their earnings had to be regularly verified and their Food Stamp benefits would vary as their earnings varied. Quality control rules imposed by the Federal Government made it difficult to serve working families without increasing the caseload error rate.<sup>40</sup> While implementing welfare reform, few states focused on trying to maintain Food Stamp eligibility for ex-welfare recipients. Many women who have left welfare appear to believe that they are no longer eligible for Food Stamps.

A variety of legislative and regulatory changes have been implemented and proposed, trying to increase the access of working low-income families to the Food Stamp Program. At present, however, a significant number of those who have left cash public assistance appear to be forgoing Food Stamp assistance, although their family incomes are very low.

The Medicaid program is more complicated. As described above, eligibility for children in poor families was established in the mid-1980s regardless of their AFDC utilization. Furthermore, women who leave welfare through work, have ongoing Medicaid eligibility for a year (and longer at state discretion.) This suggests that Medicaid utilization should have been less tied to welfare usage than were Food Stamps.

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<sup>40</sup> Greenstein and Guyer (2001) discuss these provisions in the Food Stamp program in detail.

- Yet, there was a significant and completely unexpected decline in Medicaid usage among both children and non-disabled adults immediately following the implementation of TANF programs in the mid-1990s. Concerns about getting poor children to access health care was a primary reason for Clinton's CHIP proposal, discussed above.

The evidence suggests that Medicaid usage among children has begun to increase again in the late 1990s, perhaps because of the special efforts made by states using the CHIP funding, but coverage of low-income children in 1999 remained below where it was in 1995. Medicaid usage among adults who have left welfare remains quite low, and many of these adults (mostly women) go without insurance even though they may be eligible for transitional Medicaid.<sup>41</sup> These changes increase the probability that some women (and their children) might be worse off after leaving welfare, a topic we return to below.

## **B. Work Behavior.**

Caseload declines will leave families more impoverished unless welfare leavers are able to replace welfare dollars with earnings. Hence, many researchers have looked closely at increases in work among low-skilled ex-welfare recipients.

Table 3 shows labor force participation rates among less-skilled persons by gender and race in 1989 (the peak of the last economic expansion), 1993 (the beginning of the Clinton administration) and 2000 (the end of the Clinton administration). The table demonstrates the strong increases in labor force involvement among less-skilled women over the past decade, and particularly during the Clinton years. Among all female high school dropouts, labor force participation rates rose by 7 percentage points

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<sup>41</sup> Greenstein and Guyer (2001).

(from 43 to 50 percent), while they rose 11 percentage points among black female dropouts. Increases among female high school graduates also occurred, but were smaller in magnitude.

It is, of course, the women who are more likely to have access to welfare and to be most affected by the policy changes of the 1990s. In contrast, the less skilled men actually show flat or declining labor force participation over the Clinton years, a particularly striking result given the strong labor market boom of this time period. These strong increases among women versus men in labor market involvement are at least consistent with the idea that the welfare policy changes had a strong effect on labor force involvement among women. The ongoing declines in male labor force participation, even in the strong economy of the 1990s, is often attributed to increases in disability benefits and workers compensation claims.<sup>42</sup>

Further evidence that these labor force changes are closely correlated with policy changes is visible in Figure 3, which plots labor force participation among women by marital status and children over the 1990s. While married women show moderate increases in labor force participation (continuing a decades-long trend), the largest increases are among single mothers with children under age 18. This group experienced a 10-point increase in labor force participation between 1993 and 2000. Furthermore, this effect really takes off in 1995, just as the debate about welfare reform heats up and a majority of states are implementing waivers to move more welfare recipients into work. The changes are even larger among single mothers with children under age 6.<sup>43</sup>

Focusing on actual welfare recipients, the data also show dramatic changes in

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<sup>42</sup> See Ellwood (2001) for a summary.

behavior. For instance, one can look at the share of women who are actively working while also receiving welfare payments. This number has risen from 7 percent to 33 percent between 1992 and 1999.<sup>44</sup> A variety of studies follow welfare leavers over time in specific states, and these studies indicate that a clear majority of these women are working at some future date.<sup>45</sup> For instance, using the National Survey of America's Families, Loprest (2001) finds that 71 percent of former TANF recipients were employed in 1999.

*Was Policy Change Responsible for the Increases in Employment?*

The research cited above provides circumstantial evidence that policy changes were important to increases in employment among single women. As noted earlier, however, there were at least three things going on in the mid-1990s. The welfare reforms occurred at about the same time the economy started to expand strongly. And in these same years there were expansions in the minimum wage and in the EITC. All of these changes pushed in the same direction, increasing the returns to work at the same time that programmatic changes encouraged women to leave public assistance and enter the labor market.

- Unlike the literature on caseload effects, there is near unanimity in the current literature that the combination of the expanded EITC and other work supports and various welfare reforms dramatically increased work by single parents, though debate remains about the relative contribution of each component.

A wide range of researchers including Eissa and Liebman (1996), Meyer and Rosenbaum (1999), Moffitt (1999), Blank et al. (2000), Ellwood (2000), Schoeni and Blank (2000) and Hill and O'Neill (2001) all find that a sizable component of the growth

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<sup>43</sup> For more discussion of these changes, see Blank and Schmidt (2001).

<sup>44</sup> U.S. Department of Health and Human Services (2000).

in labor force participation can be linked to welfare reform, the EITC, or both.

A key methodological question is whose labor force participation should be examined. Most, including Meyer and Rosenbaum (1999), Ellwood (2000), and Moffitt (1999), have focused on single mothers with children. But, if policy also influences fertility and marriage choices, this might be an endogenously selected group. Others such as Schoeni and Blank (2000) compare the impacts among high school dropouts (both mothers and non-mothers) with those who have education beyond high school, arguing that more educated women were less affected by the policy reforms, although they were affected by the strong economy, and hence might provide a reasonable comparison group to study the impact of policy. Regardless of the comparison group, the research on work involvement finds that both policy and economy seem to have mattered.

There is much more uncertainty about the relative contributions of the EITC changes versus the welfare reform changes. Meyer and Rosenbaum (1999) indicate that about half of the labor force increases among single mothers between 1984 and 1996 are due to the EITC expansions. Schoeni and Blank (2000), while showing that the implementation of waivers increased employment prior to the passage of welfare reform, find that the implementation of TANF-funded programs had much less impact on labor market participation. They indicate the EITC and the strong economy played a critical role. Hill and O'Neill (2001) utilize a somewhat different sample and find both economy and welfare policy important for employment increases post-TANF. And Ellwood (2000) suggests that the combination of the EITC and welfare reform had a very sizable impact, but argues that the independent effects cannot be accurately separated because

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<sup>45</sup> Brauner and Loprest (1999).

many of the welfare reform changes were administrative in nature and interacted with the strong economy and the existence of EITC supports.

The impact of the minimum wage increases in the 1990s has been less studied, perhaps surprisingly given the controversy over minimum wage effects that erupted in the early 1990s. While minimum wage increases should raise the returns to work among low skilled workers, if they also result in a loss of jobs then the net effect is uncertain. Of course, in the very strong and expanding labor market of the mid-1990s, this effect is more likely to show up as slower growth in jobs rather than a net loss. Bernstein and Schmitt (1998) investigate the minimum wage increases of 1996 and 1997 and conclude that there is little evidence of job loss and some real evidence of wage gains due to these policy changes. This is relatively consistent with the work of Neumark (1999) which suggests that the minimum wage changes in the mid-1990s affected only unskilled teen workers.

One additional strand of research investigates employer behavior rather than worker behavior, and focuses on the willingness of employers to hire less-skilled workers (and particularly ex-welfare recipients.) Holzer and Stoll (2001) analyze survey data from employers in four major cities in 1998 and 1999 and find that 3 percent of all job openings went to ex-welfare recipients. Of course, the tight labor market almost surely made employers more willing to hire and train lower-skilled workers in the late 1990s, an effect which would have added to the employment opportunities of women leaving welfare.

- The striking declines in caseloads were clearly matched with striking increases in labor force participation among exactly the population likely to be most affected by welfare changes. The evidence suggests that policy changes, both in welfare and in wage support programs, played an important role in

increasing the labor force involvement of less-skilled women and particularly single mothers.

There is far less literature on whether the higher marginal tax rates on second earners or the changing rewards and penalties for marriage influenced behavior. Dickert et al. (1995), Eissa and Hoynes (1999), and Ellwood (2000) all suggest that the labor supply of low skill married women may have been depressed slightly by the higher marginal tax rates created by EITC phase outs. The findings on marriage are far more mixed, perhaps reflecting the fact that the social policy changes created marriage rewards for some and marriage penalties for others. Eissa and Hoynes (2000) report that marriage penalties created a small increase in female headship. Dickert-Conlin and Houser (1999) find that a rise in the EITC increases female headship for whites and reduces it for blacks. Ellwood (2000) finds limited impacts, but argues that there may be longer term impacts.

- Overall, it appears that the social policy changes fairly dramatically increased work by single mothers. They may also have reduced work somewhat by wives married to low earning males. Impacts on marriage are uncertain.

### **C. Poverty and Income.**

Declining caseloads and increased earnings need not result in increased income if the earnings are no greater than the welfare income they replace. One of the key debates over the late 1990s was whether welfare reform's primary goal should be to get women into the workforce, or whether it should reduce poverty. Ideally, one would like to do both. But policies that increase work and reduce poverty might be more costly than policies that only move women off welfare.<sup>46</sup>

By most measures, low income families became better off during the 1990s.

Figure 4 presents poverty rates for selected groups.

- While overall poverty declined slightly between 1993 and 1999, poverty rates among blacks and Hispanics, as well as among female-headed households (those most affected by welfare reform) declined more rapidly and all three groups experienced their lowest recorded poverty levels in 1999. This suggests that, at least in the short run, the altered social policies did not cause deterioration in the economic situation of households as some had predicted.

Schoeni and Blank (2000) suggest that the welfare policy reforms of the mid-1990s (both waivers and TANF) reduced poverty rates by 2 percent among less-educated women.

Figure 5 shows the growth in real family income at the 20<sup>th</sup> percentile, the median and the 80<sup>th</sup> percentile over the 1990s.

- While income at the median and below fell more rapidly between 1989 and 1992, all groups grew at about the same rate from 1993 to 1999. These increases in income at the bottom of the distribution are the most substantial since the economy-wide income growth of the 1960s.

Several analyses have focused on income changes among female-headed families with children at the bottom end of the income distribution, the group most likely to be affected by welfare reform. All of these studies agree that the median single parent family gained income over the 1990s, as a result of sharp increases in earnings that more than offset the decline in public assistance income (Primus, et. al, 1999; Haskins 2001; Center on Budget and Policy Priorities, 2001). For instance, the Center on Budget and Policy Priorities (2001) reports that female headed families in the middle of the income distribution saw their real income rise by 23 percent between 1993 and 1999, from \$16,200 to almost \$20,000.

There is also agreement that some group of disadvantaged women lost income in the mid-1990s. The Center on Budget and Policy Priorities (2001) indicates that the

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<sup>46</sup> The 1996 legislation had four stated goals which notably did NOT include poverty reduction.

bottom quintile (the bottom 20 percent) of income recipients among all female-headed families with children lost income from 1995 to 1999, although they gained sharply from 1993-95. Somewhat contrasting evidence comes from data on consumer expenditures (versus income), which shows increases in consumption spending throughout the 1990s among even very low-income single mothers with children (Haskins, 2001).

Supporting evidence that some among the most disadvantaged may have become worse off in the 1990s is apparent by looking at poverty gaps, a better measure of economic well-being than a simple poverty count. Table 4 shows the poverty gap per person among all families with children below the poverty line in four years in the 1990s. The poverty gap based on cash income only falls by almost \$400 between 1993 and 1997, reflecting the earnings gains in this population. But after social insurance and means-tested benefits are taken into account, the per person poverty gap goes up slightly, from \$1447 to \$1524. The bottom of Table 4 makes clear that the poverty-reducing effects of means-tested benefits declined as these benefits declined, and this more than offset the rise in earnings and the rise in benefits from the growth of the EITC.

- Our reading of the evidence suggests that there are clearly a group of the poorest single mother families that have probably made only minimal gains over the 1990s and some at the very bottom who have lost ground, although the size of this group of unclear. This evidence is consistent with the belief that some more disadvantaged women who are not work-ready have been sanctioned or time-limited off welfare and not been able to replace their welfare income with other income sources.

There are at least three other reasons to view all of these income calculations with a bit of skepticism. First, studies of welfare leavers indicate that a substantial minority of leavers appear to be unemployed at some point after leaving welfare.<sup>47</sup> The best guess

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<sup>47</sup> Brauner and Loprest (1999)

about what these women are doing is that they are surviving by relying more upon their boyfriends or upon other family members for income. While this may work as a short-term strategy, such arrangements may fall apart over time and are unlikely to produce long-term economic stability for either the women or their children.

Second, the income reported in these calculations may overstate disposable income. For instance, these calculations do not take account of increased expenses associated with work. While we know that child care subsidies have expanded enormously with welfare reform, many women still receive no or low subsidies. If out-of-pocket work expenses -- child care and transportation costs -- were netted out of earnings these families may have much less disposable income. Further, some of these calculations assume that women receive Food Stamps, EITC, or child support as well. To the extent that women do not receive these other types of support after they leave welfare, their incomes will be lower.<sup>48</sup>

Third, most available evidence focuses on income-related measures. Measures of hunger have changed little over the 1990s, despite the strong economic boom.<sup>49</sup> Changes in health outcomes, educational outcomes, criminal victimization, or other measures of well-being among female headed families have received little attention. This leaves us without a full picture of how the welfare reforms have affected the overall well-being of those most affected by them.

The evidence seems to clearly indicate that the average women who might have been affected by welfare reform has increased her cash income, largely by working more

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<sup>48</sup> Not surprisingly, immigrants appear to be particularly affected by the loss of non-cash benefits. This problem is likely to worsen as a rising share of immigrants will have arrived since August 1996 and be ineligible for any public assistance support, except at state discretion.

than in the past. Both increased earnings and expansions in the supports for working families have been important. Whether this has left her better off remains a debatable point, once increased expenses are taken account of. Certainly, the modest income gains over the late 1990s for mother-headed families at the bottom of the income distribution suggest that anything that disrupts their earnings (such as a future recession), could sharply increase poverty rates if public assistance is no longer readily available.

#### **D. Child Support Enforcement**

The bulk of the major child support changes were passed in 1996 and many of these required that states set up new systems and coordinate with larger national ones. Thus it is still relatively early to determine how much difference the child support changes adopted during the Clinton administration will ultimately make. And tragically, in our view, only a limited amount of scholarly work is being done to examine how the new child support measures are changing collections, and far more importantly, behavior and well-being.

On at least one dimension, it is possible to measure progress. Major changes in paternity establishment, notably the move toward in-hospital paternity establishment were adopted in 1993.

- Largely due to the use of voluntary, in-hospital paternity establishments, between 1992 and 1999 paternity establishment tripled, rising from 512,000 to 1,546,000.<sup>50</sup> Given that there were roughly 1,300,000 out-of-wedlock births<sup>51</sup>, this means that paternity was being established in a large share of

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<sup>49</sup> Survey data on food security are available since 1994. See [www.usda.gov](http://www.usda.gov).

<sup>50</sup> Data for 1992 from Committee on Ways and Means (2000, Table 8-1, p. 467); for 1991, Office of Child Support Enforcement (2001, Table 2).

<sup>51</sup> Ventura et al. (2000) report that there were 1.293 million out-of wedlock births in 1998. Data for 1999 are not yet available.

new births, and that states were beginning to “catch-up” on establishing paternities for previous births.

Since paternity establishment is the vital first step in child support, these developments are very important. One other measure is widely cited.

- Since 1993, the amount of child support collected through the child support enforcement program rose in real dollars from roughly \$9 billion to nearly \$16 billion. This increase has occurred before most of the new system changes are fully implemented.

Still this is not the whole story. There is a sizable share of child support collections that do not go through the child support enforcement program at all. Some of these are handled directly through parents. Others go through the court system. Some of the apparent increase in collections may simply be a change in accounting, as payments that were formerly collected privately are now part of the public system.

Unfortunately there is no reliable measurement of all the child support payments made in the U.S. What data we have is based on survey reports and is likely to be seriously underreported. One important reason is that child support collected for women while on welfare goes mostly to the state, with only a small pass through going to the recipient in the form of a slightly higher welfare check. But the evidence suggests child support collections are rising.

Current Population Survey data show that reported child support grew by roughly 30 percent between 1992 and 1999, rising from \$10.7 billion to \$13.5 billion. The fraction of never married mothers who are not on welfare and who reported getting any child support grew from 0.13 to 0.23<sup>52</sup>

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<sup>52</sup> These are authors’ tabulations of March CPS data. Note that in looking at the fraction of never married mothers getting child support we looked only at those not on welfare who are more likely to know if child support was being collected. If we look at all never married mothers, the share reporting child support

Sorenson and Halpern (1999) point out that one of the particular challenges for the child support system is that it is faced with an ever growing share of cases among never married mothers, for whom collections are much harder to achieve. As a result, the fraction of all mothers getting child support has been relatively flat, growing from 0.28 to 0.30 over this period. It is too soon to tell whether the fairly radical changes in child support will really change the rate and level of collections. There are some promising signs, but the current fractions getting child support remain low.

#### **E. Urban Poor Neighborhoods.**

As discussed above, the Clinton Administration explicitly focused on poor urban neighborhoods in a variety of their initiatives. The 1990s were generally good years for the cities. The 2000 Census indicates that population rose strongly in 8 of the 10 largest cities in the country between 1990 and 2000.<sup>53</sup> Of course, much of this was due to the economic expansion of that decade.

Changes in the well-being of low income populations within these cities over the 1990s is largely still unknown. The 2000 Census will ultimately allow us to look at whether population in neighborhoods of concentrated poverty – the so-called underclass neighborhoods -- increased or decreased over the 1990s, but this data is not yet available. Indeed, Census data on overall poverty rates and income levels within cities is not yet available.

Until we have the 2000 Census data, the best we can do is look to see how well cities fared relative to the country as a whole. Table 5 shows our own tabulation of

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grew from 0.14 to 0.20.

poverty rates and median income in 1988-89, 1992-93, and 1998-99 for the 10 largest cities using the March CPS data and averaging across two years for a larger sample.

Poverty declined in all of these cities between 1992-93 and 1998-99, but it is up in four of the cities between 1988-89 and 1998-99, and changes very little in three others. The last column of Table 5 shows poverty rates excluding immigrants who arrived since 1993. In several of the southwestern cities the improvement in poverty is slightly greater if the effect of immigration is removed.

- There was a great deal of heterogeneity in poverty changes across cities. Between 1992-93 and 1998-99, poverty fell in all but one city among the 10 largest cities. But in some cities the falls were sizable, in others they were minor. And to our surprise, poverty rose in four of the cities between 1988-89 and 1998-99, and changed very little in three others. This in spite of the fact that national poverty rates fell significantly over the last decade, particularly for blacks.

Median income changes mirror poverty changes. While median incomes rose in almost all cities over the economic boom of the 1990s, they fall in half of these cities when compared with 1988-89.

- Like poverty, median income changes are quite diverse across cities. Some cities experience income declines, even in the midst of the national economic boom; other cities show strong income gains.

An alternative way to evaluate well-being among low-income populations is to look at how their housing conditions changed. As discussed above, an ongoing thrust of reform during the Clinton administration was to provide funds for low income housing construction and rehabilitation, or to improve the delivery of housing assistance. Because housing is often the largest budget item for low-income families, changes in housing prices can have major effects on housing choices. Table 6 presents a few key indicators

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<sup>53</sup> The exceptions are Philadelphia and Detroit.

of housing quality, from the 1991 and 1999 American Housing Survey, which is collected in major urban areas in selected years.

- Measures of physical housing conditions all improve over the 1990s, continuing a long-term trend. There is less crowding and fewer people living in houses with structural problems by 1999 versus 1991.
- Housing rent burdens present a more ambiguous picture. While the share of families paying 30-49 percent of their income on housing declined somewhat, the share of families paying over 50 percent of their current income on housing went up by two percentage points. While low-income families typically benefit from earnings and employment gains during an expansion, these benefits may be offset by increases in housing costs that also occur in an expansion. The incomes of the very poorest families may not be keeping up with the rise in housing prices.

Several initiatives, including the CDFI Fund, were focused on encouraging homeownership through affordable mortgages. Many community-based groups used this program to develop low-income housing and encourage homeownership, and homeownership did rise in these years. Table 7 shows homeownership rates by race and ethnicity in 1989 (the previous economic peak), 1993 and 1999.

- Homeownership rises dramatically between 1993 and 1999, particularly among Hispanic and black households (and is at an all-time high for these groups by the end of the 1990s.)

We know of no research that tries to untangle whether these changes in housing quality or homeownership in the 1990s are due to policy changes versus overall economic expansion. To the extent that the Clinton Administration wanted to improve housing quality and homeownership, there certainly appeared to be ongoing gains on these fronts over the 1990s.

The 1990s brought a wide variety of changes in public housing and housing assistance, as well, most of which have not been seriously evaluated. Efforts to “clean

up” public housing, by reducing crime and drug dealing were ineffective in many cases.<sup>54</sup> As discussed above, partly out of frustration with the ineffectiveness of these efforts, a number of communities explicitly started to remove high-rise public housing units, replacing them with either low-rise scattered-site units or with Section 8 vouchers. The impact of these changes deserves evaluation.

Overall, we know much less about the changes in American cities as a result of the policies implemented in the 1990s than we do about the effects of welfare reform. In part this is because much of our detailed city-specific knowledge must come from Census data which is not yet available. In part, this is because researchers have focused less on the housing and neighborhood issues than they have on the welfare and employment issues. The currently available evidence suggests that life in most big cities improved in the 1990s – crime rates came down, poverty came down, and income went up. But there are worrisome signs that poverty often did not come down much and that rent burdens were rising for some families. A more nuanced evaluation that looks at how specific urban populations were faring and that measures the effects of specific policies is still to be done.

### **III. What Was the Clinton Legacy?**

The Clinton years were a period of remarkable social change. Revolutionary changes in social policy dramatically increased support for the low income working families while families where no adults were employed generally could get cash aid only on a short-term basis (and often required some work-related efforts to continue to receive

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<sup>54</sup> Popkin et al. (2000) describes these efforts in Chicago, and their ultimate failure.

it). The strong economy created the strongest employment opportunities since the 1960s.

- The result was a transformation of behavior among low-income single mothers. They left welfare (or avoided entering welfare) in much larger numbers than anyone expected, and they entered the labor market in greater numbers than expected. This produced a substantial increase in their earnings which was reinforced through expanded work related supports such as the EITC. Their overall disposable income grew less than their earnings, in part because they lost public assistance income and in part because work expenses such as child care ate into their dollars.

But this major transformation off welfare and into work did not produce increases in poverty, and in fact, most of these families appear to be doing at least as well or a little better (based on cash income measures). As discussed below, it remains to be seen whether this continues in a slower-growth economy.

- These changes transformed the political discussion about welfare and the programmatic organization of public assistance. Devolution to the states has given state governors much greater involvement in program design and oversight. The perceived success of work-oriented programs has led to political support for welfare-to-work programs and for welfare reform among a broad spectrum of political leaders.

Five years after welfare reform was passed, many people are invested in making it succeed; criticisms come primarily from grass-roots and community advocacy organizations who often have difficulty making their voices heard in the policy process. Sharp criticism of welfare mothers – so-called “welfare bashing” – has receded as well, as more recipients combine work and income. Public support for the current work-oriented welfare programs appears to be relatively strong. Of course, the extent to which this translates into a long-term legacy for the Clinton administration depends not just upon recent history, but upon the long-term effects of these changes.

- The Clinton era policies are extremely well suited to a strong economy. Public assistance changed its focus from supporting non-workers to supporting workers. Block grant funding for TANF does not fall even as the economy improves. And recent immigrants are readily employed in good

times.

But there remain a variety of key questions and concerns about these social changes that will only be answered over time.

- The first question involves what to do with people that are not very successful in their efforts to find and retain work, even in a strong economy.

Most state welfare-to-work programs are still designed to serve women who are relatively work-ready. Programs are not designed for the hard-to-serve families, in which the adults face multiple barriers to work.<sup>55</sup> Serving populations with learning disabilities, substance abuse problems, family legal or health problems, or families in situations of domestic violence is not only difficult but almost surely more expensive. It may be more expensive to help women in these circumstances become work ready than it is to simply continue to pay them a monthly welfare check. States are increasingly facing the question of how to serve these more difficult (and needy) populations in their welfare-to-work efforts.

- A second issue involves ensuring that supports for working families actually reach them. Unexplained declines in Food Stamps and Medicaid usage are troublesome, though there is evidence that things may be improving.

Ultimately we believe the nation may need to dramatically simplify these programs. They still are cloaked in the administrative and rhetorical framework of welfare-based supports, with their intensive and intrusive application process and their complex regulations.

- Most important is the question of how many of the behavioral changes observed in the 1990s are strongly tied to the unusually strong labor market of that decade. Any serious future recession could cause major disruptions for the newly-designed system of public assistance.

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<sup>55</sup> For instance, see the research by Danziger, et. al. (2000) which describes these barriers.

The changes have converted public support from a counter-cyclical program—helping people the most when they are unemployed—to a pro-cyclical one. In the next recession as people lose their jobs, they will also be faced with losing their worker supports. The problems will be particularly acute for recent legal immigrants who are not citizens, since they are no longer eligible for most TANF and food stamp benefits regardless of their income and employment situation.

Should private sector jobs for less-skilled workers become much less available in a future recession, it is simply unclear how the newly-unemployed families will cope with this situation or what sort of public assistance will be available to them. Indeed, in the presence of time limits, sanctions, and immigrant prohibitions, it is not even clear how many families would be eligible for cash public assistance. The human cost of a serious down-turn could therefore be much larger than in the past.

- Of course, much will depend on how states react. The TANF fixed block grant funding pushes most of the residual responsibility for changes in the demand for public assistance onto the states. Federal dollars will not increase in the next recession, so any increase in the need for public assistance will fall on state coffers. Since most states operate under balanced budget requirements, this may mean that an economic slowdown could bring substantial cuts in welfare support, even as more individuals lose their jobs and apply for public assistance.

It is not at all clear how the currently-designed system operates in a slower-growth economy with fewer jobs. States have so far had the luxury of operating their programs only in a time of strong economic expansion. In different economic circumstances, state programs could face substantial economic and political strains that might lead to major programmatic changes at both the state and the federal level.

In short, while the public assistance system has been significantly transformed, the new system is still being tested and strained. The social policy changes of the 1990s

were enacted in a charmed world of growing employment and earnings opportunities. If we return to more normal economic times--and particularly if wage and employment opportunities for less-skilled workers shrink in the years ahead--it remains unclear what the final outcome of the revolutions of the Clinton years are likely to be. Since much of the legacy is one of devolution, one must look to how the states will react when things get tough.

The Clinton years could be a springboard for further policy change. If economic pressures make it difficult for states to continue their work-support efforts, they may pursue changes that allow them to build a more recession-proof but still work-oriented system. For instance, states may run more extensive public-sector job programs for workers unable to find private sector jobs; they may demand health care reforms that make it easier to provide low-wage workers with health insurance; they may work on expanding Unemployment Insurance coverage, so that workers who lose their jobs have an alternative to public assistance. Should some of these things occur, then the changes of the 1990s will appear to be the beginning of a series of social policies changes that may be much more substantial than currently enacted. Of course, some states may use tight budgets and hard economic times to enforce time limits and sanctions even more strongly and to limit public assistance to fewer families.

- In the short run, Clinton's legacy is one of radical change in social policy, as programs have devolved to a different level of government, their funding structure has been dramatically changed, and there has been a massive increase in the incentives to work and a concomitant decrease in the availability of cash support. This legacy has been strongly intertwined with and dependent upon the strength of the economy.

It is currently impossible to fully understand how much of the behavioral and program changes of the 1990s are fundamentally reliant upon the expanding economy,

and how much will change when the economic environment changes. What happens when a next serious recession comes is still unknown.

- The long-term legacy of the Clinton-era reforms will depend upon how these newly-configured programs evolve over time, including how well they operate in a weak economy as well as a strong. It will also depend on what happens to the nature of the poor and poverty. If poverty becomes even more identified with single parents and inner city residents, there may be less sympathy for addressing future poverty-related issues. But if the policy changes transform the nature of poverty, the Clinton legacy may be a more hopeful, if somewhat more insecure future.

Clinton and the Republican Congress really did end “welfare as we know it.” In the near term, more people are working and fewer people are poor. A judgment as to whether the policy reforms of the 1990s fundamentally moved the nation closer to ending poverty as we know it awaits the more measured perspective of history.

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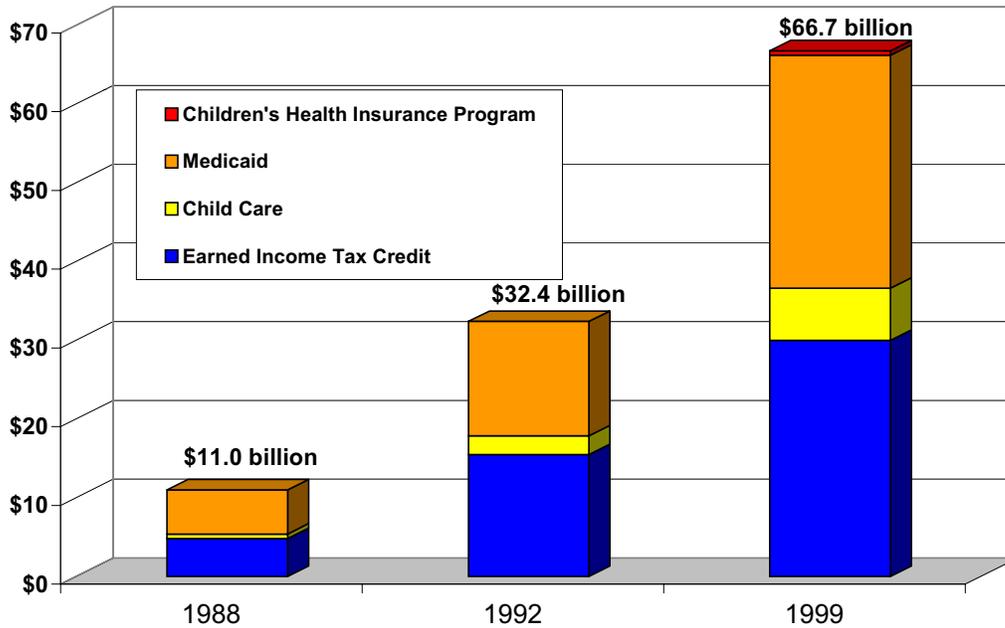
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**Figure 1**  
**Spending for Programs Other Than AFDC/TANF, Food Stamps, and Housing**  
**That Are Targeted On Low Income Working Families**

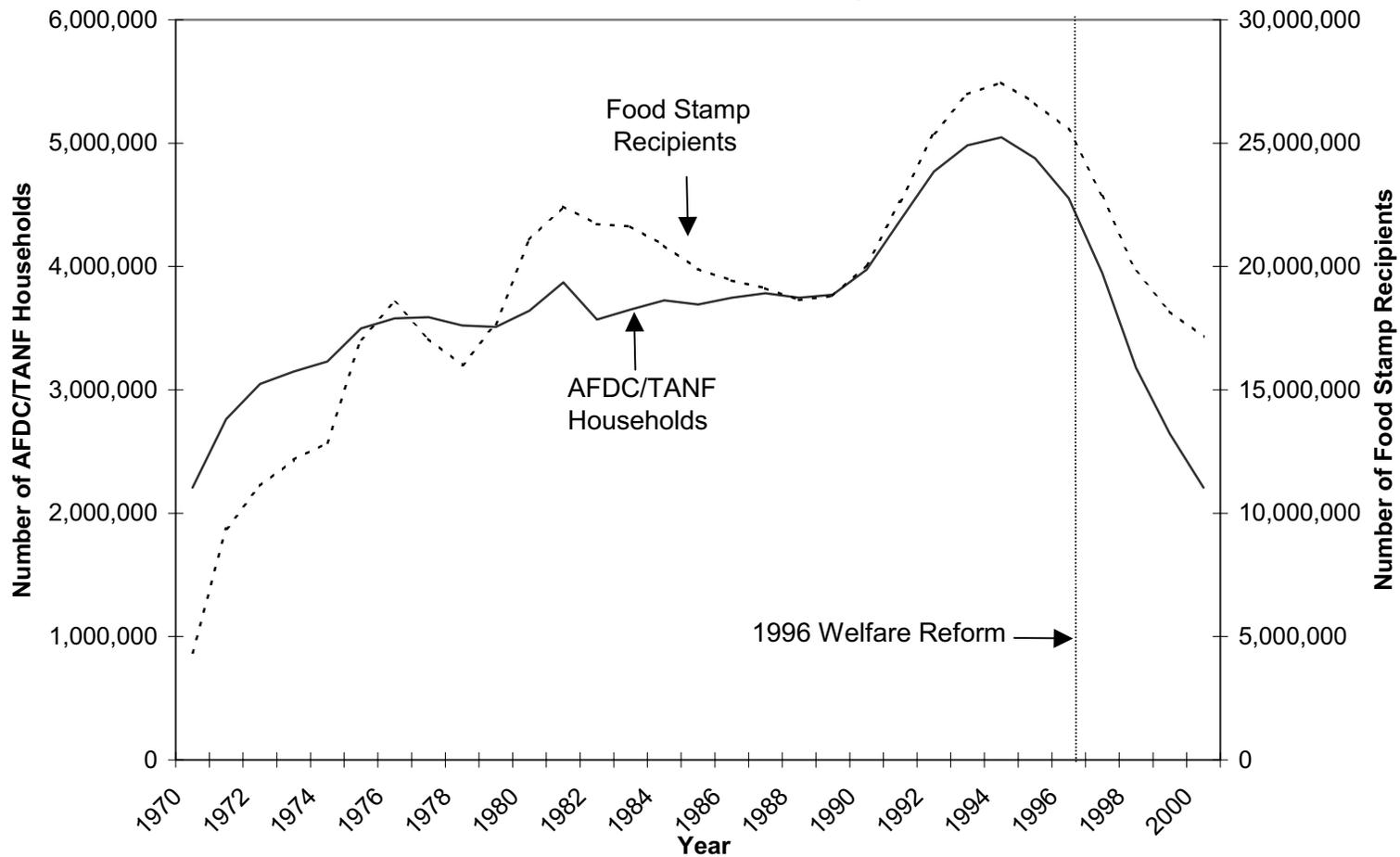


Notes: Medicaid is money spent on children and non-elderly, non-disabled adults not receiving cash assistance. Child care includes money spent under the Child Care Development Block Grant(CCDBG), AFDC transitional and at risk, TANF child care, TANF transfers to CCDBG, and estimated share of Social Services block grant spent on child care. The chart excludes spending for AFDC/TANF, food stamps, and housing for working families because these figures are not available. There was a sizable recent increase in the number and share of AFDC/TANF who were working so adding these values would magnify the changes shown.

Sources: Earned Income Tax Credit: Committee on Ways and Means (2000, Table 13-14). Child Care: Committee on Ways and Means (2000, Tables 9-26, 9-30, 10-1, 10-4), Committee on Ways and Means (1996, Tables 10-13, 10-15), Committee on Ways and Means (1992, p. 974 (for estimated share of Title XX funding spent on child care)). Medicaid numbers based on adjustments to 2082 data done at the Urban Institute and provided by Leighton Ku. 1999 Medicaid data is not yet available by group, thus 1999 represents aggregate 1999 spending (Committee on Ways and Means (2000, Table 15-13)) times .156, which is the share we project will be spent on these groups based on trends through 1998.

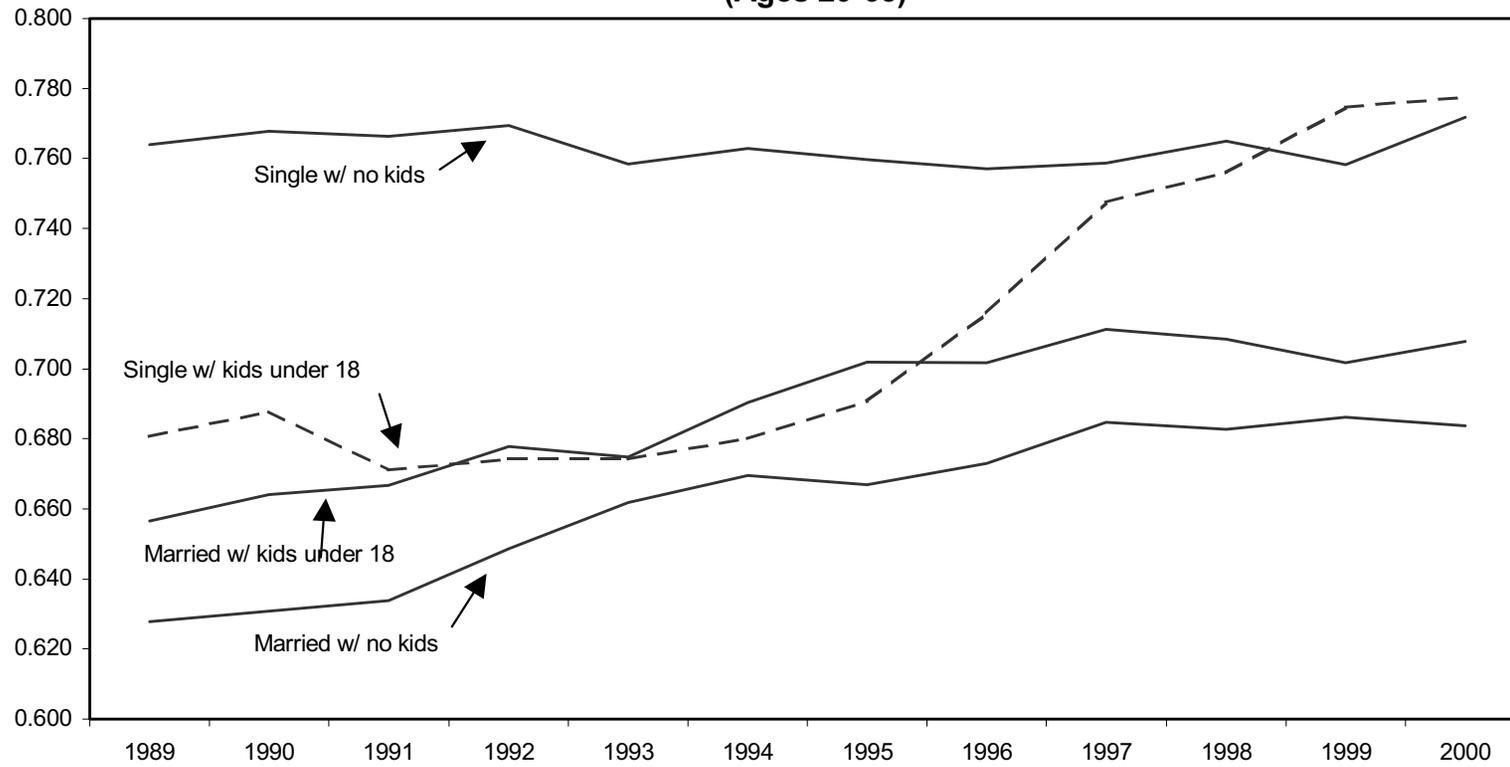
Figure 2

### Total AFDC/TANF & Food Stamp Caseloads



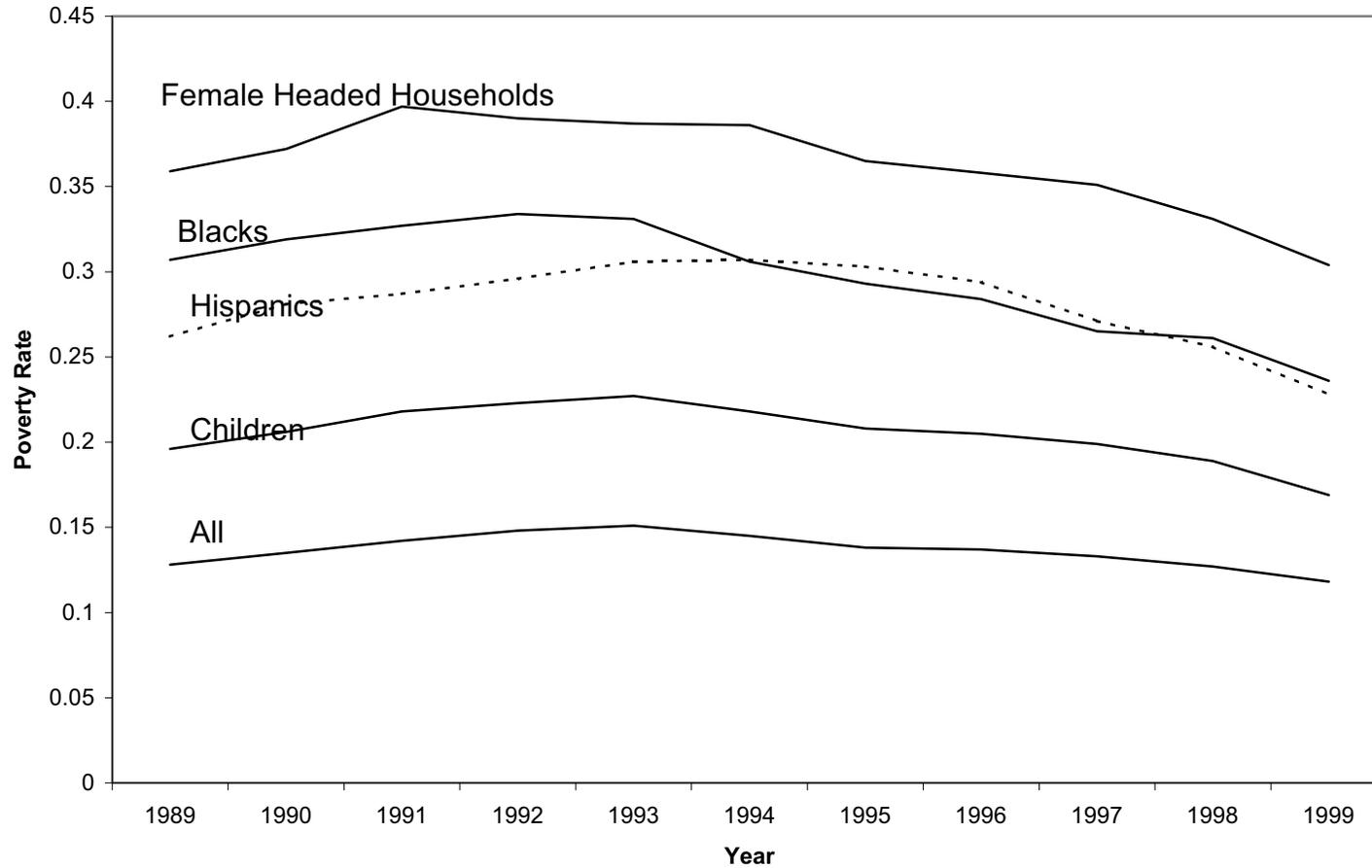
Source: <http://www.fns.usda.gov> and <http://www.acf.dhhs.gov>

**Figure 3**  
**Labor Force Participation Rates for Women by Marital Status and**  
**Children**  
**(Ages 20-65)**



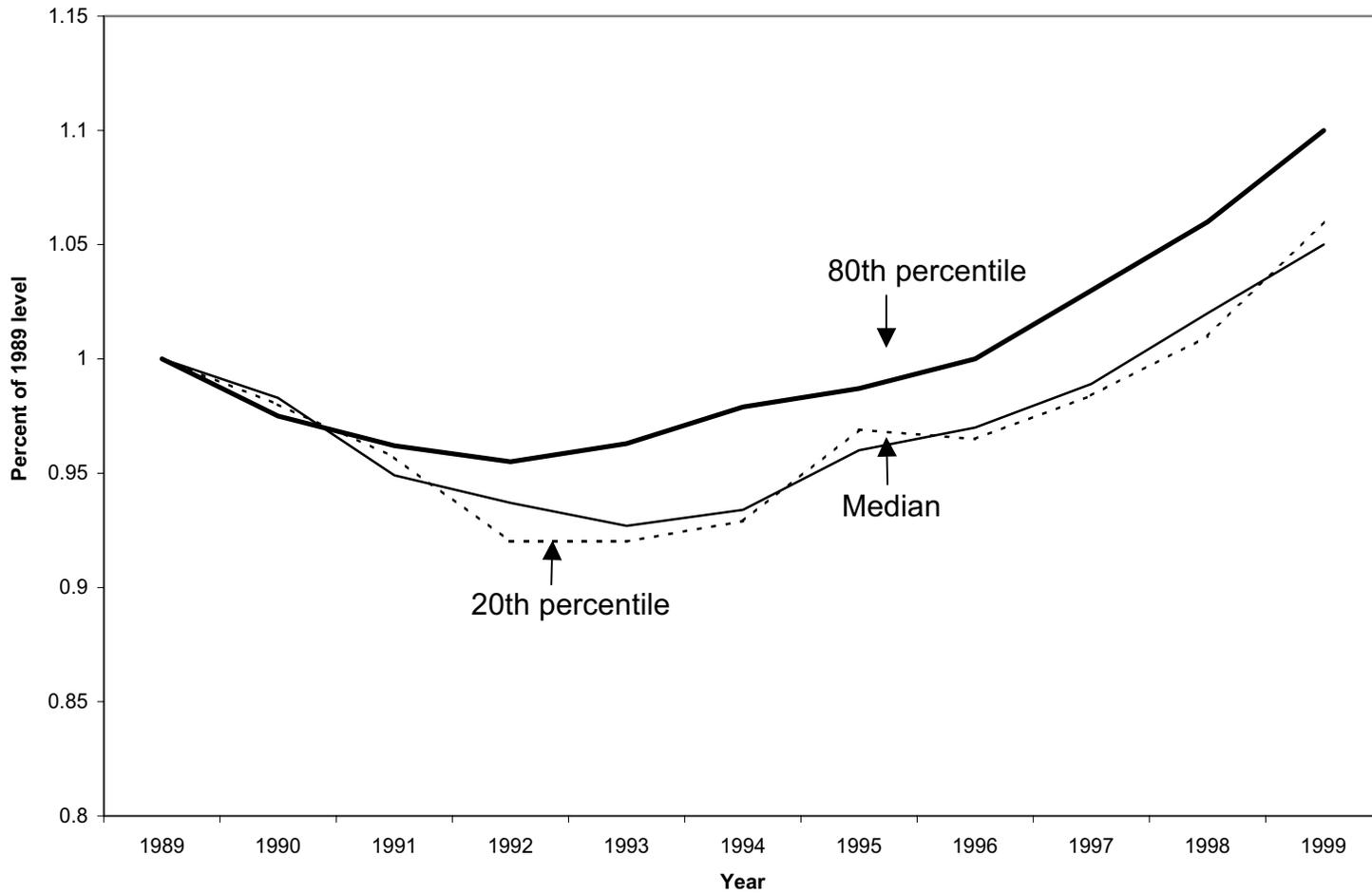
Source: Tabulations of March Current Population Survey Data

**Figure 4**  
**Selected Poverty Rates**



Source: Bureau of the Census (<http://www.census.gov/>)

**Figure 5**  
**Growth In Real Family Income, 1989-1999**



Source: Department of Commerce (Bureau of the Census)

**Table 1**  
**Income and Benefits for a Single Mother with Two Children When Working and Not Working in 1988, 1992, 1999**

	1988		1992		1999	
	Not Working	Working Full Time Minimum Wage	Not Working	Working Full Time Minimum Wage	Not Working	Working Full Time Minimum Wage
Total Earnings	0	\$9,813	0	\$10,497	0	\$10,712
Payroll Taxes	0	-737	0	-803	0	-819
TANF(AFDC) and Food Stamps	8,612	2,630	8,393	2,697	7,967	2,310
Earned Income Tax Credit	0	1,231	0	1,643	0	3,816
Child Care Expense	0	-2,000	0	-2,000	0	-2,000
<u>Child Care Support</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>500</u>	<u>0</u>	<u>1,000</u>
<b>Disposable Income</b>	<b>\$8,612</b>	<b>\$10,937</b>	<b>\$8,393</b>	<b>\$12,535</b>	<b>\$7,967</b>	<b>\$15,018</b>
Government Paid Health Insurance? (Medicaid)	Yes	No	Yes	Children Under 9	Yes	Children Under 16
<i>Net financial gain from working</i>		<i>\$2,325</i>		<i>\$4,142</i>		<i>\$7,051</i>

Source: Authors' tabulations

**Table 2**  
**Median Family Income and**  
**TANF Grants per Poor Child**  
**Selected States**

	Median Family Income (1996/97)	Approximate TANF Dollars per Poor Child Per Year (1996/97)
Arkansas	\$31,300	\$297
California	\$44,200	\$1,585
Connecticut	\$55,700	\$1,854
Florida	\$37,000	\$798
Mississippi	\$32,750	\$412
Wisconsin	\$49,800	\$1,765

Sources: TANF grant: Committee on Ways and Means (1998, Table 7-40, p. 504). Median family income and number of poor children: Authors' tabulations of March 1997 and March 1998 Current Population Survey Data.

**Table 3**  
**Selected Labor Force Participation Rates (Ages 20-65)**

	Year		
	1989	1993	2000
<b>High School Dropouts</b>			
Female			
Total	44.5	43.1	50.0
Black	43.6	40.0	51.1
White/Other	45.2	43.9	49.0
Hispanic	43.8	43.3	50.6
Male			
Total	75.5	74.3	74.7
Black	65.3	64.0	58.7
White/Other	74.4	72.5	70.2
Hispanic	86.7	85.0	87.4
<b>High School Graduates</b>			
Female			
Total	68.0	68.1	70.8
Black	72.3	67.6	73.0
White/Other	67.6	68.5	71.0
Hispanic	64.1	64.9	66.6
Male			
Total	88.2	86.8	85.3
Black	83.3	79.2	78.2
White/Other	88.8	88.0	86.0
Hispanic	90.4	88.1	89.4

Source: Author's tabulations of Current Population Survey March Supplement data.  
Black and white/other categories do not include Hispanics.

**Table 4****Impact of the Safety Net on Poverty Gaps per Person  
(All persons in families with children, 1999 dollars)**

	Year			
	1993	1995	1997	1999
<b>Poverty Gap</b>				
Cash Income	\$2,737	\$2,562	\$2,562	\$2,370
Plus Social Insurance <sup>a</sup>	\$2,559	\$2,394	\$2,338	\$2,185
Plus Means-tested Benefits <sup>b</sup>	\$1,488	\$1,419	\$1,529	\$1,547
Plus Federal Taxes (including EITC)	\$1,447	\$1,386	\$1,514	\$1,524
<b>Percent Reduction in Poverty Gap due to:</b>				
Social Insurance	16.1	15.8	18.4	17.7
Means-Tested Benefits	43.8	44.7	37.2	34.0
Federal Taxes	1.1	4.4	5.7	6.8

a. Includes Social Security, disability, and worker's compensation.

b. Includes cash benefits, food stamps, housing subsidies and school lunch.

Source: Center on Budget and Policy Priorities (2001).

**Table 5**  
**Poverty Rates and Median Income**  
**for the Ten Largest Central Cities**

	Year			1998-99 (excluding post 1993 immigrants)
	1988-89	1992-93	1998-99	
<b>Poverty Rates</b>				
New York	20.8	25.6	21.7	21.5
Los Angeles	18.9	25.0	22.7	21.6
Chicago	25.9	27.5	16.2	15.9
Houston	20.6	21.5	19.6	18.5
Philadelphia	18.3	26.1	27.2	26.5
San Diego	12.2	20.1	12.0	11.3
Dallas	17.5	25.6	15.8	14.9
Phoenix	12.3	14.7	14.2	13.4
Detroit	29.0	38.3	28.2	28.0
San Antonio	29.4	32.2	18.0	17.8
<b>Median Income</b>				
New York	34,756	27,551	32,093	32,867
Los Angeles	33,236	29,134	29,797	31,530
Chicago	30,287	26,604	37,300	37,606
Houston	29,699	30,481	33,291	34,291
Philadelphia	32,563	27,315	26,930	27,513
San Diego	42,531	35,614	40,039	40,008
Dallas	29,933	24,324	36,441	38,362
Phoenix	42,004	34,684	37,247	38,575
Detroit	26,517	20,338	24,699	25,582
San Antonio	20,568	21,030	34,765	35,274

Source: Author's tabulations of Current Population Survey March Supplement data. All estimates are calculated from two year averages.

**Table 6**  
**Housing Indicators**

Percent of all Occupied Units With	Year	
	1991	1999
<b>High Rent Burden</b>		
Housing costs 30-49% of current income	16.8	15.5
Housing costs over 50% of current income	12.3	14.2
<b>Crowding</b>		
1.01 to 1.50 persons per room	2.2	2.1
1.51 or more persons per room	0.6	0.4
<b>Physical Structure Problems</b>		
Moderate physical problems	4.9	4.7
Severe physical problems	3.1	2.0

Source: U.S. Census Bureau, American Housing Survey

**Table 7**  
**Homeownership Rates by Race and Ethnicity**

	Year		
	1989	1993	1999
Total	64.0	64.1	66.7
White Non-Hispanic	69.3	70.2	73.0
Black Non-Hispanic	42.1	42.0	46.1
Hispanic	41.6	39.4	45.2

Source: U.S. Bureau of Census Tabulations from March Current Population Survey